



**Democratic Support**

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#plymaudit

## **Audit Committee**

Thursday 24 March 2016  
2.00 pm  
Council House, Plymouth

**Members:**

Councillor Parker-Delaz-Ajete, Chair  
Councillor Sam Leaves, Vice Chair  
Councillors Sam Davey, Murphy and Mrs Pengelly

**Independent Members:**

Mr Clarke  
Mr Stewart

Members are invited to attend the above meeting to consider the items of business overleaf.

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**Tracey Lee**

Chief Executive

# Audit Committee

## Agenda

### 1. Apologies

To receive apologies for non-attendance submitted by Committee Members.

### 2. Declarations of Interest

Members will be asked to make any declarations of interest in respect of items on this Agenda.

### 3. Minutes (Pages 1 - 8)

To confirm the minutes of the meeting held on 3 December 2015.

### 4. Chair's Urgent Business

To receive reports on business which, in the opinion of the Chair, should be brought forward for urgent consideration.

### 5. Overview of Civil Protection

The Audit Committee will receive a verbal report on the roles and responsibilities of Civil Protection.

### 6. New Devon CCG Audit Committee - 23 March 2016

The Audit Committee will receive a verbal report on the New Devon CCG Audit Committee on 23 March 2016.

### 7. Treasury Management Strategy and Annual Investment Strategy 2016/17 including Minimum Revenue Provision (MRP) Strategy 2016/17 (Pages 9 - 42)

The Audit Committee will be asked to note the Treasury Management Strategy and the Annual Investment Strategy 2016/17 including the Minimum Revenue Provision (MRP) Strategy 2016/17, as approved by Full Council on 29 February 2016.

### 8. Treasury Management Practices, Principles and Schedules 2016/17 (Pages 43 - 90)

The Audit Committee will receive the Treasury Management Practices, Principles and Schedules 2016/17.

**9. Strategic Risk and Opportunity Register Monitoring Report (Pages 91 - 104)**

The Audit Committee will receive the Strategic Risk and Opportunity Register Monitoring report.

**10. Information Commissioner's Office Audit (Pages 105 - 106)**

The Audit Committee will receive the Information Commissioner's Office Audit report.

**11. Internal Audit Plan for 2016-17 (Pages 107 - 128)**

The Audit Committee will receive the Internal Audit Plan for 2016/17.

**12. External Audit Progress Report (Pages 129 - 134)**

The Audit Committee will receive the External Audit Progress Report.

**13. Audit Plan 2015/16 (Pages 135 - 156)**

The Audit Committee will receive the Audit Plan for 2015/16.

**14. Internal Audit Charter and Strategy 2016/17 (Pages 157 - 174)**

The Audit Committee will receive the Audit Charter and Strategy 2016/17 for adoption.

**15. Review of Rolling Work Plan (Pages 175 - 178)**

The Audit Committee will review the rolling work plan.

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## Audit Committee

Thursday 3 December 2015

### PRESENT:

Councillor Parker-Delaz-Ajete, in the Chair.  
Councillor Sam Leaves, Vice Chair.  
Councillors Sam Davey and Murphy.

Co-opted Representatives: Mr Clark and Mr Stewart.

Apology for absence: Councillor Mrs Pengelly.

Also in attendance: David Bray (Grant Thornton), David Curnow (Devon Audit Partnership), Ben Chillcott (CCG), Chris Flower (Lead Accountant), Anne Gunther (Chair of CCG Audit Committee), Mike Hocking (Head of Corporate Risk and Insurance), Julie Hosking (Risk and Insurance Officer), Robert Hutchins (Devon Audit Partnership), Robert Loader (Audit South West), Guy Marshall (Senior Finance Analyst), Craig McArdle (Assistant Director for Strategic Co-operative Commissioning), David Northey (Head of Corporate Strategy), Tony Rose (Devon Audit Partnership), Greg Rubins (BDO), Tara Westcott (KPMG Audit), Helen Wright (Democratic Support Officer).

The meeting started at 2.00 pm and finished at 4.00 pm.

*Note: At a future meeting, the committee will consider the accuracy of these draft minutes, so they may be subject to change. Please check the minutes of that meeting to confirm whether these minutes have been amended.*

31. **DECLARATIONS OF INTEREST**

Councillor Sam Leaves declared a private interest relating to the CCG Integrated Fund item and any subsequent items that referred to the NHS, as she was employed by the NEW Devon Clinical Commissioning Group.

32. **MINUTES**

The committee agreed that the minutes of the meeting held on 17 September 2015 are confirmed as a correct record.

33. **CHAIR'S URGENT BUSINESS**

With the permission of the Chair, the Head of Corporate Strategy advised that the committee would need to fill the remaining vacancy for the co-opted representative. Work would commence on drafting an advertisement in the new year.

(In accordance with Section 100(B)(4)(b) of the Local Government Act, 1972, the Chair brought forward the above item for urgent consideration because of the need to inform Members).

34. **OPERATIONAL RISK AND OPPORTUNITY MANAGEMENT - UPDATE REPORT**

Mike Hocking (Head of Corporate Risk and Insurance) and Julie Hosking (Risk Management and Insurance Officer) presented the operational risk and opportunity management report which highlighted the following key areas –

- (a) operational risk and opportunity registers and analysis of risks identified;
- (b) former red risks which were now amber -
  - Police and Crime Commissioner funding cut leading to adverse impact on vulnerable victims;
  - delivering council services within the envelope of the resources provided in 2016/17;
- (c) risk and opportunity register information;
- (d) CCG/PCC Integrated Risk Register;
- (e) strategic risk review.

The committee noted and endorsed the current position with regard to the operational risk and opportunity management.

35. **ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITIES FOR 2015/16 (AND MID YEAR REPORT)**

Chris Flower (Lead Accountant) presented the mid-year Treasury Management 2015/16 report which the Local Government Act 2003, required the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. The Council's strategy for 2015/16 was approved by Full Council at its budget meeting on 10 February 2015.

The report highlighted the following key areas -

- external context;
- UK economy;
- market reaction;
- local context;
- borrowing strategy;
- PWLB certainty rate and project rate update;
- LOBOs;
- credit risk;
- counterparty update;
- budgeted income and outturn;
- update on investments with Icelandic banks;
- compliance with prudential indicators/other prudential indicators;
- Treasury Management indicators;
- interest rate exposures;
- maturity structure of borrowing;

- principal sums invested for periods longer than 364 days;
- authorised limit for external debt;
- adoption of CIPFA Treasury Management Code;
- investment training;
- outlook for quarter three and four 2015/16.

The main areas of questioning from Members related to the following –

- (a) the authority's budgeted investment income for the year which was estimated at £1m (the authority was currently anticipating to deliver this by the year end);
- (b) the remaining balance held by the Icelandic Banks; (£125k had been received from Heritable Bank which left a balance of £60k; £1.3m was still outstanding from the Glitnir Bank); the impact of recovering the outstanding debt would need to be assessed as currently 95pence in the pound was being offered;
- (c) the possible impact of the Chinese economy on the authority's investments.

Information on the LOBOs would be circulated to the members of the Audit Committee.

The committee agreed that approval of the Treasury Management Strategy and Annual Investment Strategy 2016/17 is delegated to the Head of Corporate Strategy in consultation with the Chair and Vice Chair of the Audit Committee to agree a final version.

The committee noted the mid-year treasury management 2015/16 report.

The committee further noted that the Treasury Management Strategy and Annual Investment Strategy 2016/17 would be submitted to Cabinet and Full Council for authorisations in February 2016.

### 36. **AUDIT COMMITTEE UPDATE**

David Bray (Grant Thornton) provided Members with the Audit Committee update which reported on the progress in delivering the external auditor's responsibilities. The report also included a summary of emerging national issues and developments that might be relevant to the authority.

The following key areas were highlighted –

- 2014-15 final accounts audit;
- 2014-15 value for money conclusion;
- 2014-15 Annual Audit Letter;
- 2014-15 certification work;
- other activities;

- national issues and developments included Audit Committee effectiveness review; making development (a practical guide for local leaders), turning up the volume (the business location index); improving efficiency of council tax collection code of audit practice and supporting members in governance.

The committee noted the report.

37. **ANNUAL AUDIT LETTER 2014/15**

David Bray (Grant Thornton) provided the Annual Audit Letter which summarised the key findings arising from the work that had been carried at Plymouth City Council for the year ended March 2015.

The key areas included –

- financial statements audit (including audit opinion);
- value for money (VfM) conclusion;
- whole of government accounts;
- certification of housing benefit grant claim;
- audit fee;
- key issues and recommendations;
- reports issued and fees.

The committee noted the report.

38. **CERTIFICATION WORK REPORT 2014/15**

David Bray (Grant Thornton) provided the Annual Audit Letter which related to the certification of one claim/return for the financial year 2014/15 for Housing Benefit Subsidy return to the Department for Work and Pensions.

The Chair took this opportunity to thank officers from Grant Thornton for the work they had undertaken over the past seven years.

The committee noted the report.

39. **EXTERNAL AUDIT PROGRESS REPORT (BDO) - DECEMBER 2015**

Greg Rubins (BDO) presented the external audit progress report (December 2015) which highlighted the following key areas –

- audit plan;
- review of internal controls;
- financial statements audit
- whole of government audit account;
- review of arrangements to secure economy, efficiency and effectiveness;
- Annual Audit Letter;
- grants and returns and the grant report;



- sector update.

The committee noted the report.

40. **INTERNAL AUDIT - HALF YEAR REPORT**

David Curnow (Devon Audit Partnership) presented the Internal Audit half year report which provided the committee with a position statement on the audit work carried out since April 2015 and based on work performed to date during 2015/16. Internal Audit was able to provide reasonable assurance on the adequacy and effectiveness of the authority's internal controls. The following key issues were highlighted –

- assurance statement;
- progress against plan;
- progress impact assessment;
- audit findings;
- fraud prevention and detection;
- customer value;
- summary of audit reports and findings for 2015/16;
- performance indicators;
- customer service excellence.

The main areas of questioning from Members related to the following –

- (a) the definition of a Small Bodies Annual Return (this related to relevant bodies in England with an annual turnover of £6.5m or less which were required to complete an annual return in accordance with proper practices summarising their annual activities at the end of each financial year);
- (b) governance issues relating to schools (whether these issues needed to be considered by the Audit Committee as members had a responsibility as corporate parents);
- (c) the current system for storing travel and subsistence receipts; (claims were submitted electronically with a requirement for staff to retain the receipts);
- (d) the categories that housing benefit overpayments had been attributed to (ie, fraud, clerical errors, etc);
- (e) security of information within the Print and Document service; (a number of improvements had already been undertaken).

The following information would be provided –

- (f) the monetary value of the overpayments made for domiciliary care;
- (g) a breakdown of the categories for the overpayment of Housing Benefit claims;

- (h) the name of the school that had been deemed inadequate and the circumstances surrounding this issue.

The committee agreed that the Assistant Director for (?) is invited to attend a future meeting of Audit Committee to provide an update on the domiciliary care overpayments issue.

The committee noted the report.

41. **CCG - INTEGRATED FUND**

David Curnow (Devon Audit Partnership) presented the internal audit –integrated health and wellbeing joint assurance. The Northern, Eastern and Western Devon Clinical Commissioning Group (NEW Devon CCG) and Plymouth City Council (PCC) formed an integrated commissioning function on 1 April 2015 which brought together funds for 2015/16 of £460m, to be used to jointly commission health and wellbeing services in the locality. The report highlights the following key areas –

- the joint working and the need for independent assurance;
- Internal Audit briefing – integration;
- the Plymouth integrated commissioning risk register framework;
- Plymouth City Council and Northern, Eastern and Western Devon Clinical Commissioning Group integrated risk management framework.

The main area of questioning from Members related to the risk governance structure which included the integrated risk reporting structure.

The committee agreed that –

- (1) the terms of reference for the Finance and Review Group are submitted to a future meeting;
- (2) the senior responsible officer will attend the committee to provide assurance as to who would be making the decision regarding the integrated risk.

(Also present for this item Ben Chillcott, Ann Gunther, Guy Marshall, Craig McArdle, Robert Loader and Tara Westcott which represented CCG, PCC, KPMG Audit and Audit South West).

42. **REVIEW OF ROLLING WORKPLAN**

The committee considered and noted its rolling work programme for 2015/16 (with the amendment to change the external auditor reports for March 2016 to BDO).

43. **EXEMPT BUSINESS**

There were no items of exempt business.

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**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Treasury Management Strategy and Annual Investment Strategy 2016/17 including Minimum Revenue Provision (MRP) Strategy 2016/17
<b>Committee:</b>	Cabinet
<b>Date:</b>	16 February 2016
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	Andrew Hardingham (Assistant Director for Finance)
<b>Author:</b>	Chris Flower, Lead Accountant
<b>Contact details</b>	Tel: 01752 304212 email: chris.flower@plymouth.gov.uk
<b>Ref:</b>	Fin/CF
<b>Key Decision:</b>	No
<b>Part:</b>	I

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**Purpose of the report:**

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services requires local authorities to set a Treasury Management Strategy Statement and Prudential Indicators on an annual basis to include the Annual Investment Strategy.

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**The Brilliant Co-operative Council Corporate Plan 2013/14 -2016/17:**

Effective financial management is fundamental to the delivery of corporate improvement priorities. Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities.

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**Implications for Medium Term Financial Plan and Resource Implications:  
Including finance, human, IT and land**

Treasury Management affects the Council's budget in terms of borrowing costs and investment returns. The Treasury Management Strategy sets the authorised limits and operational boundaries within which investment and borrowing decisions are taken and risks managed. Effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

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**Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:**

A robust Treasury Management Strategy is key to ensuring a successful delivery of our Medium Term Financial Plan and ensuring the Council can achieve its objectives to be a Pioneering, Growing Caring and Confident City.

**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? No

**Recommendations and Reasons for recommended action:**

1. Cabinet recommends the Treasury Management Strategy and Annual Investment Strategy (incorporating the authorised limits, operational boundaries and prudential indicators) to the Council for approval

*This is to comply with the CIPFA Code of Practice and discharge our statutory requirement.*

2. Cabinet recommends Council to approve the change of policy in the calculation of the Minimum Revenue Provision using the annuity method with effect from 2015/16.

**Alternative options considered and rejected:**

It is a statutory requirement under the Local Government Act 2003 and supporting regulations to set an annual treasury strategy for borrowing and prepare an annual investment strategy. The Council has adopted the CIPFA Code of Practice for Treasury Management.

**Published work / information:**

Not Applicable

**Background papers:**

Not Applicable

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	

**Sign off:**

Fin	djn15 16.69	Leg	lt/24 948	Mon Off	DVS 24947	HR		Assets		IT		Strat Proc	
Originating SMT Member Andrew Hardingham, Assistant Director													
Has the Cabinet Member(s) agreed the contents of the report? Yes													

**Treasury Management Strategy Statement 2016/17 and  
Annual Investment Strategy 2016/17**

**I. Introduction**

- I.1 In April 2002 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.
- I.2 In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.
- I.3 This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.
- I.4 The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

**2 External Context**

**2.1 Economic background**

Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

A major political issue in 2016 will be the UK's future relationship with the EU. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US



domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve did not raise policy rates at its meetings in October and November, but the statements accompanying the policy decisions point have made a rate hike in December 2015 a real possibility. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

### 2.2 Credit outlook

The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain low.

### 2.3 Interest rate forecast

The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix A**.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1.14%, and that new long-term loans will be borrowed at an average rate of 3.51%.

### 3. Local Context

3.1 The Authority currently has £230m of borrowing and £68m of investments. The Economic & Interest Rate Forecast is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in table I below.

**Table I: Balance Sheet Summary and Forecast**

	<b>31.3.15 Actual £m</b>	<b>31.3.16 Estimate £m</b>	<b>31.3.17 Forecast £m</b>	<b>31.3.18 Forecast £m</b>	<b>31.3.19 Forecast £m</b>
General Fund CFR	290.94	313.50	329.23	337.67	342.67
Less: Other debt liabilities *	-38.94	-38.94	-38.00	-38.00	-38.00
<b>Borrowing CFR</b>	<b>252.00</b>	<b>274.56</b>	<b>291.23</b>	<b>299.67</b>	<b>304.67</b>
Less: External borrowing **	-215.46	-238.02	-253.75	-262.19	-267.19
<b>Internal (over) borrowing</b>	<b>36.54</b>	<b>36.54</b>	<b>37.48</b>	<b>37.48</b>	<b>37.48</b>
Less: Working Capital /Usable	114.10	111.00	89.00	87.00	85.00
<b>Investments (or New borrowing)</b>	<b>77.56</b>	<b>74.46</b>	<b>51.52</b>	<b>49.52</b>	<b>47.52</b>

\* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

\*\* shows only loans to which the Authority is committed and excludes optional refinancing

- 3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding a minimum investment balance of £52m.
- 3.3 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table I shows that the Authority expects to comply with this recommendation during 2016/17.

#### **4 Borrowing Strategy**

- 4.1 The Authority currently holds £230 million of loans, an increase of £15 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table I shows that the Authority expects to borrow up to £254m in 2016/17. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £338 million.

#### **4.2 Objectives:**

The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

## 4.3 Strategy:

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In addition, the Authority may borrow short-term loans to cover unexpected cash flow shortages.

## 4.4 Sources:

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Devon Local Government Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- any other counterparty that are approved by the authority's TM advisors.

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised some of its long-term borrowing from the PWLB and through LOBOs but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

#### **4.5 LGA Bond Agency:**

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Treasury Management Board.

#### **4.6 LOBOs:**

The Authority holds £100m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £20m of these LOBOS have options during 2016/17, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £100m.

#### **4.7 Short-term and Variable Rate loans:**

These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

#### **4.8 Debt Rescheduling:**

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

### **5. Investment Strategy**

**5.1** The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £60 and £70 million, and is expected to remain about the same in the forthcoming year.

**5.2** Objectives:

Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

**5.3** Strategy:

Given the increased risk and continued low returns from short-term unsecured bank investments, the Authority continues to hold its investments in more secure, lower yielding asset classes. The authority holds £20m as a longer-term investment in the CCLA Property Fund and this gives a higher return than the short term investments. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit, Local Authorities and money market funds. This diversification will represent a continuation of the new strategy adopted in 2015/16.

**5.4 Approved Counterparties:**

The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

<b>Credit Rating</b>	<b>Banks Unsecured</b>	<b>Banks Secured</b>	<b>Government</b>	<b>Corporates</b>	<b>Registered Providers</b>
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£6m 5 years	£12m 20 years	£20m 50 years	£6m 20 years	£6m 20 years
AA+	£6m 5 years	£12m 10 years	£12m 25 years	£6m 10 years	£6m 10 years
AA	£6m 4 years	£12m 5 years	£12m 15 years	£6m 5 years	£6m 10 years
AA-	£5m 3 years	£12m 4 years	£12m 10 years	£6m 4 years	£6m 10 years
A+	£5m 2 years	£12m 3 years	£6m 5 years	£6m 3 years	£6m 5 years
A	£4m 13 months	£12m 2 years	£6m 5 years	£6m 2 years	£6m 5 years
A-	£4m 6 months	£12m 13 months	£6m 5 years	£6m 13 months	£6m 5 years
BBB+	£3m 100 days	£5m 6 months	£2m 2 years	£2m 6 months	£2m 2 years
BBB	£0m next day only	£5m 100 days	n/a	n/a	n/a
None	n/a	n/a	£12m 25 years	n/a	£3m 5 years
Pooled funds	£20m per fund				

This table must be read in conjunction with the notes below

**5.5 Credit Rating:**

Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

**5.6 Banks Unsecured:**

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank.

### **5.7 Banks Secured:**

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

### **5.8 Government:**

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

### **5.9 Corporates:**

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

### **5.10 Registered Providers:**

Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

### **5.11 Pooled Funds:**

Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access



bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

### **5.12 Risk Assessment and Credit Ratings:**

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

### **5.13 Other Information on the Security of Investments:**

The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high

credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

**5.14 Specified Investments:**

The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA+] or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of [A-] or higher.

**5.15 Non-specified Investments:**

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	<b>Cash limit</b>
Total long-term investments	£40m
Total investments without credit ratings or rated below A-	£10m
Total investments with institutions domiciled in foreign countries rated below AA+	£0m
Total non-specified investments	£50m

### 5.16 Investment Limits:

The Authority's revenue reserves available to cover investment losses are forecast to be £45 million on 31st March 2016. In order that no more than 40% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £20 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£12m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£20m per group
Any group of pooled funds under the same management	£25m per manager
Negotiable instruments held in a broker's nominee account	£40m per broker
Foreign countries	£12m per country
Registered Providers	£12m in total
Unsecured investments with Building Societies	£10m in total
Loans to unrated corporates	£5m in total
Money Market Funds	£40m in total

### 5.17 Liquidity Management:

The Authority uses cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

## 6. Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

### 6.1 Security:

The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target
Portfolio average credit rating	A

### 6.2 Liquidity:

The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£15m

### 6.3 Interest Rate Exposures:

This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	210%	210%	210%
Upper limit on variable interest rate exposure	80%	80%	80%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

### 6.4 Maturity Structure of Borrowing:

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	<b>Upper</b>	<b>Lower</b>
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

## **6.5 Principal Sums Invested for Periods Longer than 364 days:**

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Limit on principal invested beyond year end	£40m	£35m	£35m

## **7.1 Other Items**

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

## **7.2 Policy on Use of Financial Derivatives:**

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

### **7.3 Investment Training:**

The needs of the Authority's treasury management staff for training in investment management are assessed every twelve months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

### **7.4 Investment Advisers:**

The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled by quarterly review meetings and periodically tendering for the provision of Treasury Management Consultancy services.

### **7.6 Investment of Money Borrowed in Advance of Need:**

The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £338 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

## **8. Financial Implications**

The budget for investment income in 2016/17 is £0.77 million, based on an average investment portfolio of £68 million at an interest rate of 1.14%. The budget for debt interest payable in 2016/17 is £7.90 million, based on an average debt portfolio of £230 million at an average interest rate of 3.4%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

## **9. Other Options Considered**

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

## **10.0 Change of Minimum revenue Provision (MRP) Policy**

### **10.1 MRP Review**

Under regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003/3146, as amended, local authorities are required to charge to their revenue account for each financial year MRP to account for the cost of their unfinanced capital expenditure.

Prior to its amendment by the 2008 Regulations, regulation 28 (as amended by regulation 3(1), and read with regulation 3(2) and (3), of the 2007 Regulations) sets out the method authorities were required to follow in calculating MRP.

There has also been a recent change of advice from CIPFA on MRP calculations and the use of the annuity method. Prior years involved detailed calculations which were very prescriptive but these have been replaced with a requirement that local authorities calculate an amount of MRP which they consider to be prudent.

### **10.2 Change of Policy**

During 2015/16 the Council has undertaken a review of its MRP calculation method and accounting assumptions. The Council's calculations were driven by a very complex spreadsheet that needed a full overhaul. The Council therefore engaged its TM advisors, Arlingclose to review and advise best practice. The main conclusions were that, due to the way we were calculating our annual MRP charge has resulted in an over-provision for many years and it also recommended a change in the calculation method.

The Council wants to match the economic benefits from its assets with the life of those assets. Therefore the Council wants to use the annuity method which not only spreads the cost of the borrowing over the life of the assets but it also takes into account the time value of money.

The council's previous method of calculating MRP was to spread the cost of borrowing in a straight line over a maximum of 25 years. The current council tax payers would therefore pay a relative higher charge than council tax payers in the future. e.g. if an asset cost £20m to build and has a life of 20 years then there would have been a £1m charged each year on the straight line basis. The annuity method takes into account the time value because £1m today has a higher value (NPV) than £1m in 20 years time.

The resulting change from the over provision of MRP in prior years will be to reduce the MRP charge in 2015/16 and 2016/17 by £3.65m in each year. The change of calculation method to the annuity method will reduce the MRP charge for the following years as follows; 2016/17 £1.05m; 2017/18 £0.89m; 2018/19 £0.73m; 2019/20 £0.57m (these figures would be subject to additional MRP charges for assets added during these periods).



The details of the MRP policy are shown in Appendix E.

### **10.3 Recommendations**

Cabinet recommends Council to approve the change of policy in the calculation of the Minimum Revenue Provision (MRP) using the annuity method with effect from 2015/16.

## Appendix A – Treasury Management Policy Statement

### INTRODUCTION AND BACKGROUND

- The Council adopts the key recommendations of CIPFA’s Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.
- Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-
  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet and the Audit Committee and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation’s policy statement and TMPs and CIPFA’s Standard of Professional Practice on Treasury Management.
- The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

### POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

- The Council defines its treasury management activities as “The management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and

to employing suitable performance measurement techniques, within the context of effective risk management.

- The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.
- The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

**Appendix B – Arlingclose Economic & Interest Rate Forecast November 2015**

**Underlying assumptions:**

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, a rate rise by the Federal Reserve seems significantly more likely in December given recent data and rhetoric by committee members.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

**Forecast:**

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.
- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
<b>Official Bank Rate</b>													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.75</b>	<b>0.75</b>	<b>1.00</b>	<b>1.00</b>	<b>1.25</b>	<b>1.25</b>	<b>1.50</b>	<b>1.50</b>	<b>1.75</b>	<b>1.75</b>
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
<b>3-month LIBID rate</b>													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
<b>Arlingclose Central Case</b>	<b>0.55</b>	<b>0.60</b>	<b>0.70</b>	<b>0.80</b>	<b>0.95</b>	<b>1.05</b>	<b>1.15</b>	<b>1.30</b>	<b>1.40</b>	<b>1.55</b>	<b>1.65</b>	<b>1.80</b>	<b>1.85</b>
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
<b>1-yr LIBID rate</b>													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
<b>Arlingclose Central Case</b>	<b>1.10</b>	<b>1.20</b>	<b>1.35</b>	<b>1.45</b>	<b>1.55</b>	<b>1.70</b>	<b>1.80</b>	<b>1.95</b>	<b>2.00</b>	<b>2.10</b>	<b>2.15</b>	<b>2.15</b>	<b>2.15</b>
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
<b>5-yr gilt yield</b>													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
<b>Arlingclose Central Case</b>	<b>1.50</b>	<b>1.55</b>	<b>1.60</b>	<b>1.70</b>	<b>1.80</b>	<b>1.90</b>	<b>2.00</b>	<b>2.10</b>	<b>2.20</b>	<b>2.25</b>	<b>2.30</b>	<b>2.35</b>	<b>2.35</b>
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
<b>10-yr gilt yield</b>													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
<b>Arlingclose Central Case</b>	<b>2.00</b>	<b>2.05</b>	<b>2.10</b>	<b>2.20</b>	<b>2.30</b>	<b>2.40</b>	<b>2.50</b>	<b>2.60</b>	<b>2.65</b>	<b>2.70</b>	<b>2.75</b>	<b>2.80</b>	<b>2.80</b>
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
<b>20-yr gilt yield</b>													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
<b>Arlingclose Central Case</b>	<b>2.45</b>	<b>2.50</b>	<b>2.55</b>	<b>2.55</b>	<b>2.60</b>	<b>2.65</b>	<b>2.70</b>	<b>2.75</b>	<b>2.80</b>	<b>2.85</b>	<b>2.90</b>	<b>2.95</b>	<b>2.95</b>
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
<b>50-yr gilt yield</b>													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
<b>Arlingclose Central Case</b>	<b>2.45</b>	<b>2.50</b>	<b>2.55</b>	<b>2.60</b>	<b>2.65</b>	<b>2.70</b>	<b>2.75</b>	<b>2.80</b>	<b>2.85</b>	<b>2.90</b>	<b>2.95</b>	<b>3.00</b>	<b>3.00</b>
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

## Appendix C – Existing Investment &amp; Debt Portfolio Position

	31/12/2015 <b>Actual Portfolio</b>  <b>£m</b>	31/12/2015 <b>Average Rate</b>  <b>%</b>
<b>External Borrowing:</b>		
PWLB – Fixed Rate	44.25	5.76
PWLB – Variable Rate	0.00	0.00
Local Authorities	80.30	0.39
LOBO Loans	100.00	4.38
<b>Total External Borrowing</b>	<b>224.55</b>	<b>3.23</b>
<b>Other Long Term Liabilities:</b>		
PFI	28.61	
Finance Leases	1.73	n/a
Cornwall Council (TBTF)	8.42	n/a
<b>Total Gross External Debt</b>	<b>263.31</b>	
<b>Investments:</b>		
<i>Managed in-house</i>		
Short-term investments	37.14	0.76
Long-term investments	11.00	variable
<i>Managed externally</i>		
Fund Managers		
Pooled Funds	20.00	variable
<b>Total Investments</b>	<b>68.14</b>	
<b>Net Debt</b>	<b>195.17</b>	

**Appendix D - Prudential Indicators 2016/17**

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

**Estimates of Capital Expenditure:** The Authority's planned capital expenditure and financing may be summarised as follows.

<b>Capital Expenditure and Financing</b>	<b>2015/16 Revised £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
General Fund	93.19	74.91	55.23	48.19
<b>Total Expenditure</b>	<b>93.19</b>	<b>74.91</b>	<b>55.23</b>	<b>48.19</b>
Capital Receipts	8.51	8.51	8.51	8.51
Grants & Contributions	60.22	48.08	37.35	34.15
Reserves	-	-	-	-
Revenue	1.90	2.59	0.93	0.53
Borrowing	22.56	15.73	8.44	5.00
Leasing and PFI	-	-	-	-
<b>Total Financing</b>	<b>93.19</b>	<b>74.91</b>	<b>55.23</b>	<b>48.19</b>

**Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

<b>Capital Financing Requirement</b>	<b>31.03.16 Revised £m</b>	<b>31.03.17 Estimate £m</b>	<b>31.03.18 Estimate £m</b>	<b>31.03.19 Estimate £m</b>
General Fund	313.50	329.23	337.67	342.67
<b>Total CFR</b>	<b>313.50</b>	<b>329.23</b>	<b>337.67</b>	<b>342.67</b>

The CFR is forecast to rise by £107m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

**Gross Debt and the Capital Financing Requirement:** In order to ensure that over the

medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

<b>Debt</b>	<b>31.03.16 Revised £m</b>	<b>31.03.17 Estimate £m</b>	<b>31.03.18 Estimate £m</b>	<b>31.03.19 Estimate £m</b>
Borrowing	238.02	253.75	262.19	267.19
Finance leases	1.73	1.50	1.50	1.50
PFI liabilities	37.21	36.50	36.50	36.50
<b>Total Debt</b>	<b>276.96</b>	<b>291.75</b>	<b>300.19</b>	<b>305.19</b>

Total debt is expected to remain below the CFR during the forecast period.

**Operational Boundary for External Debt:** The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

<b>Operational Boundary</b>	<b>2015/16 Revised £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
Borrowing	238.02	253.75	262.19	267.19
Other long-term liabilities	38.94	38.00	38.00	38.00
<b>Total Debt</b>	<b>276.96</b>	<b>291.75</b>	<b>300.19</b>	<b>305.19</b>

**Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

<b>Authorised Limit</b>	<b>2015/16 Revised £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
Borrowing	280.00	300.00	320.00	340.00



Other long-term liabilities	39.00	38.00	38.00	38.00
<b>Total Debt</b>	<b>319.00</b>	<b>338.00</b>	<b>358.00</b>	<b>378.00</b>

**Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2015/16 Revised %</b>	<b>2016/17 Estimate %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>
General Fund	5.13%	4.95%	4.88%	4.71%

**Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2016/17 Estimate £</b>	<b>2017/18 Estimate £</b>	<b>2018/19 Estimate £</b>
General Fund - increase in annual band D Council Tax	5.8	10.2	16.4

**Adoption of the CIPFA Treasury Management Code:** The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* in April 2002.

## Appendix E Minimum Revenue Provision Statement

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2011.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

### Option 1

For capital expenditure incurred before 1<sup>st</sup> April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined in accordance with the former regulations that applied on 31<sup>st</sup> March 2008, incorporating an "Adjustment A".

### Option 2

For capital expenditure incurred before 1<sup>st</sup> April 2008 and for supported capital expenditure incurred on or after that date, MRP will be determined as 4% of the Capital Financing Requirement in respect of that expenditure.

### Option 3

For capital expenditure incurred after 31<sup>st</sup> March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments *or*

the alternative method as the principal repayment on an annuity method, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

### Option 4

For capital expenditure incurred after 31<sup>st</sup> March 2008, MRP will be determined as being equal to the accounting charge for depreciation.

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Capital expenditure incurred during 2016/17 will not be subject to a MRP charge until 2017/18.

### New MRP Policy

From 2015/16 the council will change its MRP policy to use the alternative option in Option 3 and use the annuity method, starting in the year after the asset becomes operational.

Guidance on the calculation method is given by CIPFA in Chapter 6 of its publication Practitioners' Guide to Capital Finance in Local Government (CIPFA 2008) (ISBN 978 1 84508 175 1).

This document states "The informal commentary on the statutory guidance suggests that the annuity method may be particularly attractive in projects where revenues will increase over time. However, it is arguably the case that the annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden than paying £100 now. The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into the real value of the amounts when they fall due. The annuity method would then be a prudent basis for providing for assets that provided steady flow of benefits over their useful life."

### Borrowing

For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, MRP will be made using the annuity method over the life of the asset (Option 3).

### Capitalisation Directions

For capitalisation directions on expenditure incurred since 1 April 2008 MRP will be made using the annuity method over 50 years.

### PFI/Leases

MRP in respect of PFI and leases brought on the Balance Sheet under the 2009 SORP and IFRS will match the annual principal repayment for the associated deferred liability.

Any loan or investment to an organisation defined as capital expenditure will not attract MRP. The original capital expenditure will be met from the capital receipt on the maturity of the loan/investment.

MRP will commence in the financial year following the one in which the expenditure is incurred, except for expenditure funded by borrowing where the project is not complete at 31st March 2016 (classified as under construction). MRP will be deferred until the construction is complete and operational with the charge to be made in the year following completion.

Capital expenditure incurred during 2016/17 will not be subject to a MRP charge until the year after the asset becomes operational.

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**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Treasury Management Practices, Principles and Schedules 2016/17
<b>Committee:</b>	Audit Committee
<b>Date:</b>	24 March 2016
<b>Cabinet Member:</b>	Councillor Lowry.
<b>CMT Member:</b>	Andrew Hardingham (Assistant Director for Finance)
<b>Author:</b>	Chris Flower, Lead Accountant
<b>Contact details</b>	Tel: 01752 304212 email: chris.flower@plymouth.gov.uk
<b>Ref:</b>	FIN/CF
<b>Key Decision:</b>	No
<b>Part:</b>	I

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**Purpose of the report:**

The Local Government Act 2003 requires the Council to set out its Treasury Management Policy, and Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy. The Council's Treasury Management Strategy for 2016/17 was approved by Council at its budget meeting on 16 February 2016. It is a requirement of the adopted CIPFA Code of Practices on Treasury Management that practices, principles and schedules are in place to ensure the Council's policy is adhered to and that working practices and controls are in place to meet the approved strategy and to fully report activities to the Audit Committee and Council.

**The Brilliant Co-operative Council Corporate Plan 2013/14 -2016/17:**

Effective financial management is fundamental to the delivery of corporate improvement priorities. Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities.

**Implications for Medium Term Financial Plan and Resource Implications:  
Including finance, human, IT and land**

Treasury Management affects the Council's budget in terms of borrowing costs and investment returns, and is reviewed as part of the budget setting process

**Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:**

- The current volatility and uncertainty within the global financial markets has had a substantial effect on Treasury Management activities. The risk in the Council's investments and loans will be constantly monitored and acted upon in accordance with the principles and procedures set out in the Council's Treasury Management Practices, Principles and Schedules.

**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? No

**Recommendations and Reasons for recommended action:**

- I. To approve the Treasury Management Practices, Principles and Schedules for 2016/17 as set out in this report.

**Alternative options considered and rejected:**

The Council has adopted the CIPFA Code of Practice for Treasury Management which requires the Treasury Management Practices, Principles and Schedules to be scrutinised and approved by the Audit Committee.

**Published work / information:**

Treasury Management Strategy and Annual Investment Strategy 2016/17 including Minimum Revenue Provision (MRP) Strategy 2016/17 (Council 16 February 2016)

**Sign off:**

Fin	djn151 6.77	Leg	Lt/25 222	Mon Off	DV S25 223	HR		Assets		IT		Strat Proc	
Originating SMT Member Andrew Hardingham, Assistant Director for Finance													
Has the Cabinet Member(s) agreed the contents of the report? Yes, but subject to any recommendations from Audit Committee.													



**PLYMOUTH CITY COUNCIL  
TREASURY MANAGEMENT PRACTICES  
PRINCIPLES AND SCHEDULES 2016-17**

This document has been prepared in the sequence provided by CIPFA. For ease of use, the key areas for Plymouth City Council treasury operations are referenced below:

	<b>TMP Number</b>	<b>Page</b>
Organisational chart of the Council's Finance and Treasury Division Statement of duties and responsibilities Absence cover	TMP 5	28
Liquidity Management, Cash flow, bank overdraft, short-term borrowing/lending	TMP 1	6
Cash Flow forecasts	TMP 8	42
Bank statements, payment scheduling	TMP 8	44
Electronic banking and dealing Standard Settlement Instructions, Payment Authorisation	TMP 1	6
Approved types and sources of borrowing Approved investment instruments	TMP 4	27
Counterparty and Credit Risk Management Current criteria Counterparty List and Limits	TMP 1	6
Dealing: - Authorised dealers - Dealing limits - List of approved brokers - Deal Ticket proforma - Direct dealing list - Settlement transmission procedures	TMP 5	28
Reporting arrangements/Performance measurement	TMP 6	34
Officers' responsibilities for reporting	TMP 2	18
	TMP 5	28
Budget, Statement of Accounts, treasury-related information requirements for Auditors	TMP 7	38
Procedure Notes for Council's treasury management system	TMP 8	42
Anti Money Laundering Procedures	TMP 9	49
Contingency Arrangements	TMP 1	6
External Service Providers	TMP 11	50
References to Statute and Legislation	TMP 1	6

### Introduction

The CIPFA Code of Practice on Treasury Management in the public Services (the Code) was last revised in November 2011. The Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. This Council had adopted the original Code and has similarly adopted the revised 2011 Code. The Code recommends the creation and maintenance of:

- A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities
  
- Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

The Treasury Management Practices (TMPs) comprise:

TMP 1: Risk management

TMP 2: Performance measurement

TMP 3: Decision-making and analysis

TMP 4: Approved instruments, methods and techniques

TMP 5: Organisation, clarity and segregation of responsibilities and dealing arrangements

TMP 6: Reporting requirements and management information arrangements

TMP 7: Budgeting, accounting and audit arrangements

TMP 8: Cash and cash flow management

TMP 9: Money laundering

TMP 10: Training and qualifications

TMP 11: Use of external service providers

TMP 12: Corporate governance

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions.

**I. TMP I: RISK MANAGEMENT**

- 1.1 All treasury management activities involve both risk and the pursuit of reward or gain for the Council. The council's policies and practices emphasise that the effective identification, management and containment of risk are the prime objectives of treasury management activities.
- 1.2 The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in **TMP6 Reporting requirements and management information arrangements**. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out as schedules below.
- 1.3 **Credit and Counterparty Risk Management:** Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.
- 1.3.1 **Principle:** *The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques, and listed in the schedule. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, as per the Treasury Management Strategy, or with whom it may enter into other financing arrangements.*

1.3.2 Schedule:

<p>Criteria to be used for creating/managing approved counterparty lists/limits</p>	<p>The Section 151 Officer is responsible for setting prudent criteria and the Council’s treasury advisors will also provide guidance and assistance in setting the criteria.</p> <p>The criteria will be agreed by Council.</p> <p>The current criteria is contained in the Treasury Strategy.</p> <p>The Council’s treasury management advisors will advise on credit policy and creditworthiness related issues. The Council’s treasury management advisors will provide a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include consideration of credit ratings from all 3 ratings agencies and other alternative assessments of credit strength (for example, statements of potential government support which now includes resolution mechanisms for failing financial institutions, CDS information, the composition of an institution’s balance sheet liabilities). The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.</p> <p>The credit rating criteria will also apply to securities issued by financial and non-financial institutions, which in some instances, might be higher than that of the issuing institution.</p> <p>Higher time and cash limits may be set for secured investments (e.g. those with underlying collateral or which are by regulation excluded from being bailed-in/restructured in the event of financial distress.)</p> <ul style="list-style-type: none"> <li>- Where there is no investment-specific rating, but collateral upon which the investment secured is rated, then the higher of the collateral and counterparty rating will be used to determine time and cash limits.</li> </ul>
<p>Approved methodology for changing limits and adding/removing counterparties</p> <p>Risk management : creditworthiness deteriorates below the minimum criteria</p> <p>(a) ratings are placed on review for downgrade</p>	<p>The Section 151 Officer has delegated responsibility to add or delete counterparties and to review limits to the Council’s treasury management advisors as detailed above.</p> <p>Where an entity’s credit rating is downgraded so that it fails to meet the minimum criteria, then</p> <ul style="list-style-type: none"> <li>- No new investments will be made,</li> <li>- Any existing investments that can be recalled or sold at no cost will be, and</li> <li>- Full consideration will be given to the recall or sale of other existing investments with the affected counterparty.</li> </ul> <p>Where a credit rating is placed on review for possible downgrade (also termed ‘rating watch negative’ or ‘credit watch negative’) so that it may fall below the minimum approved credit criteria, then only investments that can be withdrawn on [the next working day] will be made with that organisation until the rating review has been completed and its outcome known.</p> <p>The policy will not apply for ‘negative outlooks’ which indicate a long-term direction of travel rather than a possibility of an imminent downgrade.</p>

<p>Counterparty list and limits</p>	<p>A full individual listing of banking* counterparties based on the criteria will be provided by the Council’s treasury management advisors. As credit ratings etc. are subject to change without notice, any changes will be advised by the Council’s treasury management advisors.</p> <p>*It may be impractical to determine a specific list of non-financial counterparties in whose securities investments might be made. The minimum credit rating criteria and whether the security is secured or unsecured will determine its selection for investment.</p>
<p>Details of credit rating agencies’ services and their application</p>	<p>The Council considers the ratings of all 3 ratings agencies (Standard &amp; Poor’s, Moody’s and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions.</p> <p>No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the minimum credit rating criteria.</p>
<p>Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment</p>	<p>The Council’s Treasury Advisor, Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. Credit default swap information is received monthly, as well as information on share price.</p> <p>The Council’s Treasury Advisor also undertakes analysis on the balance sheet structure of key banking institutions to help inform the potential restructure (i.e. bail-in) of a bank’s unsecured liabilities should this be required by the regulatory authorities.</p> <p>In addition, Arlingclose reads quality financial press for information on counterparties.</p>
<p>Country, sector and group listings of counterparties and overall limits applied to each, where appropriate</p>	<p>Investments will be displayed so as to show total group exposure, total country exposure and total sector exposure.</p> <p>Group limits will be set for the above, in terms of monetary value/percentage of overall portfolio, where appropriate. Group limits for organisations under the same ownership will be set at the same level as the lead institution in that group.</p>

**1.4 Liquidity Risk Management:** Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council’s business/service objectives will be thereby compromised.

**1.4.1 Principle:** *The Section 151 Officer will ensure the Council has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.*

*The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to fund future debt maturities.*

I.4.2 Schedule:

<p>Cash flow and cash Balances</p>	<p>The Council will aim for effective cash flow forecasting and monitoring of cash balances and will maintain a single spreadsheet for each year and this is rolled forward each quarter for the 12-month cash flow forecast.</p> <p>The Treasury Team shall seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned.</p> <p>In order to achieve the maximum return from investments, a daily cash balance of +/- £100,000 is the objective for the Council's bank account.</p>
<p>Short term investments</p>	<p>A balance in the region of £100,000 to deal with day to day cash flow fluctuations is maintained by investing money overnight with the Council's bankers.</p> <p>The Council also uses various Reserve Accounts and Money Market Funds to manage its liquidity requirements These Accounts/Funds are named on the Council's approved counterparty list. The maximum balance on each of these accounts is reviewed and set as part of the Council's investment strategy.</p>
<p>Temporary Borrowing</p>	<p>Temporary borrowing up to 364 days through the money market is available should there be a cash flow deficit at any point during the year.</p> <p>At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.</p>
<p>Bank Overdraft and standby facilities</p>	<p>The Council has an authorised overdraft limit with its bankers Barclays of £100,000 at an agreed rate of 4%. The facility is used as a contingency when temporary borrowing is difficult or more expensive, or for amounts of less than £100,000.</p>

**1.5 Interest Rate Risk Management:** Interest Rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

**1.5.1 Principle:** *The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.*

1.5.2 Schedule:

<p>Minimum/maximum proportions of fixed/variable rate debt/interest</p>	<p>Borrowing/investments may be at a fixed or variable rate.</p> <p>The Prudential Code requires the Council to determine each year the maximum proportion of interest payable on net borrowing which is subject to fixed and variable interest rates. This is set each year as part of the annual budget setting process.</p> <p>In setting its forward Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets but will, at the same time, allow sufficient flexibility enable it to benefit from potentially advantageous changes in market conditions and level of interest rates and also to mitigate the effects of potentially disadvantageous changes.</p> <p>The Council will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility.</p>
<p>Managing changes to interest rate levels</p>	<p>The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest.</p> <p>The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact.</p> <p>The Council may determine it is more cost effect in the short-term to fund its borrowing requirement through the use of internal resources ('internal borrowing') or through borrowing short-term loans. The benefits of such borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing or refinancing in future years when interest rates are expected to be higher.</p> <p>Interest rate forecasts are provided by the Council's advisors and are closely monitored by the Treasury Management Team. Variations from original estimates and their impact on the Council's debt and investments are notified to the Strategic Treasury Management Board as necessary.</p> <p>For its investments, the Council also considers dealing from forward periods dependent upon market conditions. The Council's counterparty term limits will apply and will include the forward period of the investment.</p>
<p>Details of approved interest rate exposure limits</p>	<p>The upper limits on net fixed interest rate and net variable interest rate exposures are determined each year as part of the Treasury Management Indicators now included in the annual Treasury Management Strategy Statement.</p>

<p>Details of hedging tools used to manage risk (if applicable)</p>	<p>The Council will only use standalone financial derivatives (such as. swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.</p> <p>The use of derivatives is outlined in TMP 4 - <b>Approved Instruments, Methods and Techniques</b> and the Council will seek proper advice <u>before</u> entering into arrangements for such products and will ensure it has the necessary knowledge and understanding of them before doing so.</p>
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**1.6 Exchange Rate Risk Management:** The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council’s finances against which the Council has failed to protect itself adequately.

**1.6.1 Principle:** *The Council will ensure that it protects itself adequately against the risk of fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the Council's finances. It will manage any exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.*

**1.6.2 Schedule:**

<p>Exchange rate risk management</p>	<p>This Council does not, on a day to day basis, have foreign currency transactions or receipts. Unexpected receipt of foreign currency will be converted to sterling at the earliest opportunity.</p> <p>If the Council has a contractual obligation to make a payment in a currency other than sterling then forward foreign exchange transactions will be considered, with professional advice.</p> <p>At the present time statute prevents the Council borrowing in currencies other than Sterling.</p>
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**1.7 Refinancing Risk Management:** The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

**1.7.1 Principle:** *The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.*

*It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.*



**1.7.2 Schedule:**

<p>Projected capital investment requirements</p>	<p>4 year projections are in place for capital expenditure and it's financing or funding. Financing will be from capital receipts, reserves and any grants or contributions awarded revenue resources or reserves. Funding will be from internal or external borrowing, as decided.</p> <p>As required by the Prudential Code, the Council will undertake Options Appraisal to evaluate the best capital expenditure financing route.</p> <p>The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.</p>
<p>Debt profiling, policies and practices</p>	<p>Any longer term borrowing will be undertaken in accordance with the Prudential Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.</p> <p>The Council will maintain through its treasury system Logotech reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for its refinancings.</p> <p>Where the lender to the Council is a commercial body the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.</p>
<p>Policy on LOBO call options</p>	<p>The Council's debt portfolio includes loans borrowed on a LOBO (Lender's Option Borrower's Option) basis.</p> <p>The call dates for each LOBO loan are denoted within the Operations Folder and are referenced to the LOBO documentation.</p> <p>Prior to each call date, the Council will evaluate alternative funding sources for comparable interest rates/maturities. This will be discussed at the regular treasury meeting.</p> <p>If the Lender exercises the call option (directly or via the broker) for a revision to the terms of the loan, the Council will thoroughly evaluate the new terms and additionally seek advice from the Council's advisor.</p> <p>It is important to remain within the timescale for the Council to exercise its option should the call be made, but not be rushed into a decision.</p>
<p>Policy concerning limits on revenue consequences of capital financings</p>	<p>The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium term forecasts.</p>

**1.8 Legal and Regulatory Risk Management:** The risk that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

**1.8.1 Principle:** *The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMPI(1) Credit and counterparty risk management, it will ensure that there is evidence of counterparties’ powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.*

*The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.*

**1.8.2 Schedule:**

References to relevant statutes and regulations	<p>The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council such as:</p> <ul style="list-style-type: none"> <li>▪ CIPFA’s Treasury Management Code of Practice 2001 and subsequent amendments</li> <li>▪ CIPFA Prudential Code for Capital Finance in Local Authorities and subsequent amendments</li> <li>▪ The CLG’s statutory Guidance on Minimum revenue Provision (MRP)</li> <li>▪ Council’s Constitution including:- <ul style="list-style-type: none"> <li>○ Standing Order relating to Contracts</li> <li>○ Financial Regulations</li> <li>○ Scheme of Delegation</li> </ul> </li> </ul>
Procedures for evidencing the organisation’s powers/ authorities to counterparties	<p>The Council’s Financial Regulations contain evidence of the power/ authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the Audit Committee.</p> <p>The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them.</p> <p>Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.</p>
Required information from counterparties concerning their powers/ authorities	<p>Investments shall only be made with institutions on the Council’s authorised lending list or in securities which meet the Council’s approved credit criteria.</p> <p>The Council will only undertake borrowing from approved sources listed in TMP 4.</p>
Statement on political risks and management of the same	<p>Political risk is managed by:</p> <ul style="list-style-type: none"> <li>• adoption of the CIPFA Treasury Management Code of Practice</li> <li>• adherence to Corporate Governance (TMP 12 – Corporate Governance)</li> <li>• adherence to the Statement of Professional Practice by the Section 151 Officer</li> <li>• the roles of the Audit Committee.</li> </ul>

**1.9 Fraud, Error and Corruption, and Contingency Management:** This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk referred to as operational risk.

**1.9.1 Principle:** *The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.*

<p>Details of systems and procedures to be followed, including Internet services</p>	<p>Segregation of duties minimises the possibility of fraud and loss due to error, and is detailed in <b>TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements.</b></p> <p>I. <u>Electronic Banking and Dealing</u></p> <p>(a) <u>Banking</u>: The Council’s online banking service provided by Barclays is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data. Officers having access to the bank’s online system are as follows:</p> <ul style="list-style-type: none"> <li>• Within the Treasury Management Department <ul style="list-style-type: none"> <li>○ Lead Accountant</li> <li>○ Principal Technical Accountant</li> <li>○ Senior Technical Accounting Officers</li> <li>○ Technical Accounting Officers</li> <li>○ Apprentice</li> </ul> </li> </ul> <p>Officer access is reviewed at least 6 monthly or as necessary.</p> <p>(b) Access to the Council’s <u>treasury management system</u>, Logotech is limited to those officers listed below, each having a separate log-on and password.</p> <ul style="list-style-type: none"> <li>• Within the Treasury Management Department <ul style="list-style-type: none"> <li>○ Lead Accountant</li> <li>○ Principal Technical Accountant</li> <li>○ Senior Technical Accounting Officers</li> <li>○ Technical Accounting Officers</li> <li>○ Apprentice</li> </ul> </li> </ul> <p>These also are reviewed at least 6 monthly or as necessary.</p> <p>(c) <i>Access and use of the online ICD Portal, for our Money Market Funds, is listed below:</i></p> <ul style="list-style-type: none"> <li>• For Fund Selection <ul style="list-style-type: none"> <li>○ Head of Corporate Strategy</li> <li>○ Lead Accountant</li> </ul> </li> <li>• For Trading, the following members of the Treasury Management team <ul style="list-style-type: none"> <li>○ Principal Technical Accountant</li> <li>○ Senior Technical Accounting Officers</li> <li>○ Technical Accounting Officers</li> </ul> </li> </ul>
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	<ul style="list-style-type: none"> <li>• Inflow and outflow of monies borrowed and invested will only be from the counterparty’s bank accounts.</li> </ul> <p><i>Separate officers will carry out (a) dealing and (b) recording of transactions and disbursements.</i> Full procedure notes covering the day to day operation of the on-line banking system and the treasury management system are documented.</p> <p>2. <u>Standard Settlement Instructions (SSI)</u> list : a list is maintained of named officers who have the authority to transact loans and investments</p> <ul style="list-style-type: none"> <li>• Brokers and counterparties with whom the Council deals direct are provided a copy of the SSI list.</li> <li>• A list of named officers with authority to borrow from the PWLB and invest with the Debt Management Agency Deposit Facility is also maintained with the PWLB/DMA DF.</li> <li>• <u>Payment Authorisation:</u></li> <li>• Payments can only be authorised by an agreed cheque signatory(ies) of the Council, the list of signatories having previously been agreed with the Council’s bank.</li> <li>• Other payments made using online banking system and BACS payments can be authorised by an approved list of signatories.</li> </ul>
Verification	<p>Loans and investments will be maintained in treasury management system which will include fees and brokerage paid.</p> <p>Transactions will be cross-checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.</p> <p>When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before altering payment details.</p>
Substantiation	<ol style="list-style-type: none"> <li>1. The Treasury Management system balances are reconciled with financial ledger codes at the end of each quarter and at the financial year end.</li> <li>2. Working papers are retained for audit inspection.</li> <li>3. The bank reconciliation is carried out monthly from the bank statement to Civica.</li> </ol>
Internal Audit	<p>Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. See <u>TMP7 Budgeting, accounting and audit arrangements.</u></p>
Contingency Management	<ol style="list-style-type: none"> <li>1. All treasury systems are retained on the Council’s network. Daily back-ups are taken and maintained and network back-ups can be used by the service provider, DELT, to restore files, if necessary.</li> <li>2. Temporary off-site working facility: The officers who can avail of this facility following an emergency are The Treasury Management Officers who will individually be made aware of the procedures to follow.</li> <li>3. Electronic Banking System Failure: The Council’s bank including the mode of obtaining balance details and information on inflow/outflow of monies and instructions for CHAPS payments can be made over the phone. Hard copies of contact details and account numbers are held onsite, and work mobile phones will be made available.</li> <li>4. A Disaster Recovery Policy is held by Plymouth City Council.</li> </ol>
Insurance Cover details	<p>The Council has Fidelity Guarantee cover. Details of the provider and cover are held by the Corporate Risk and Insurance Team.</p>

**1.10 Market Risk Management:** This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

**1.9.2 Principle:** *This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.*

**1.9.3 Schedule:**

<p>Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs etc)</p>	<p>Investment instruments used by the external fund managers are subject to fluctuation in capital movements and exposed to interest rate risk. In order to minimise these risks capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective.</p> <p>Additionally the following risk control guidelines are set for each fund as part of the fund management agreement to control market risk:</p> <ul style="list-style-type: none"> <li>(a) Maximum weighted average duration of the fund;</li> <li>(b) Maximum permitted exposure to gilts/bonds;</li> <li>(c) Maximum maturity of any instrument.</li> </ul> <p>Pooled Funds with a Variable Net Asset Value (VNAV) – The council may consider VNAV funds, as appropriate, in line with its TMSS and on advice from its treasury advisors.</p>
<p>Accounting for unrealised gains/losses</p>	<p>The method of accounting for unrealised gains or losses on the valuation of financial assets will comply with the Accounting Code of Practice. VNAV pooled funds will be treated as Available for Sale Assets. Segregated fund with external managers will be treated as Fair Value through Profit or Loss.</p>

**2. TMP 2: PERFORMANCE MEASUREMENT**

2.1 **Principle:** *The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.*

*Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council’s stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, or the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out below.*

**2.2 Schedule:**

<p>Policy concerning methods for testing value for money</p>	<p>Best value reviews will include the production of plans to review the way services are provided by</p> <ul style="list-style-type: none"> <li>▪ Challenging</li> <li>▪ Comparing performance</li> <li>▪ Consulting with other users and interested parties</li> <li>▪ Applying competition principles</li> </ul> <p>in order to pursue continuous improvement in the way the Council’s functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.</p>
<p>Policy concerning methods for performance measurement</p>	<ul style="list-style-type: none"> <li>• Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council’s Prudential Indicators and to enhance accountability.</li> <li>• Prudential Indicators are local to the Council and are not intended as a comparator between authorities.</li> <li>• The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council’s agreed strategy, i.e. the Council will avoid hindsight analysis.</li> </ul> <p>Any comparison of the Council’s treasury portfolio against recognised industry standards, market indices and other portfolios is intended to</p> <ul style="list-style-type: none"> <li>(i) allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed and</li> <li>(ii) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments.</li> </ul> <p>In drawing any conclusions the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.</p>

<p>Methodology to be applied for evaluating the impact of treasury management decisions</p>	<p>Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be carried out as part of the budget monitoring reports to the Treasury Management Meetings throughout the year. The year-end Annual Treasury Report will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments.</p> <p>The Council’s Treasury Management advisers review the existing borrowing and investments and they produce a quarterly report to review the Council’s position and benchmark this against other local authorities..</p>
<p>Methodology to be employed for measuring the performance of the Council’s treasury management activities</p>	<p>Treasury management activity is reviewed half yearly against strategy and prevailing economic and market conditions through the treasury monitoring report to Strategic Treasury Board.</p> <p>The report will include:</p> <ol style="list-style-type: none"> <li>a) Total debt including average rate and maturity profile</li> <li>b) The effect of new borrowing and/or maturities on the above</li> <li>c) The effect of any debt restructuring on the debt portfolio</li> <li>d) An analysis of any risks inherent within the debt portfolio (e.g. exposure to variable rate; LOBOs in their call period)</li> <li>e) Total investments including average rate, credit and maturity profile</li> <li>f) The effect of new investments/redemptions/maturities on the above</li> <li>g) The rate of return on investments against their indices for internally and externally managed funds</li> <li>h) An analysis of any risks inherent within the investment portfolio (e.g. exposure to market movements in the value of CDs, gilts/bonds, callable deposits in their call period)</li> <li>i) A statement whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy.</li> <li>j) Daily bank balances: any major deviations from the target bank balances</li> </ol>
<p>Benchmarks and calculation methodology with regard to risk and return</p>	<p><b>Treasury Management Costs –</b>          Costs are split into Debt Management, Investment Management and Other. Investment Management is then shown as cost per £m invested, and Debt Management Costs per £m value of debt.</p> <p><b>Investment returns</b> are compared to 7-day LIBID          Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month.</p> <ul style="list-style-type: none"> <li>• Externally Managed Investment Returns - the growth (i.e. increase in value of the fund) in respect of the monthly average value of the fund.</li> </ul> <p><b>Debt Management</b></p> <ul style="list-style-type: none"> <li>▪ Average Rate on all external debt</li> <li>▪ Average Rate on external debt borrowed in financial year</li> <li>▪ Average Rate on internal borrowing</li> <li>▪ Average period to maturity of external debt</li> <li>▪ Average period to maturity of new loans in financial year</li> <li>▪ Ratio of PWLB and market debt (beginning and end of period)</li> <li>▪ Ratio of fixed and variable rate debt (beginning and end of period)</li> </ul>

<p>Best value</p>	<p>The treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated corporate and service objectives.</p> <p>When tendering for treasury-related or banking services, the Council adheres to its Financial Regulations. These require that :</p> <ul style="list-style-type: none"><li>a) For placing a contract with a value below £100k, at least 3 quotes are required, for contracts between £100k - £150k 5 quotes are required. Above this a formal tender is required.</li><li>b) When placing a contract with a value in excess of £172.5k, a tendering process that meets the requirements of the EU procurement procedures (OJEU) is undertaken.</li><li>c) If necessary, the Council will also consult with other users of similar services as well as with interested parties.</li><li>d) The Council will also evaluate alternative methods service delivery.</li></ul>
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**3. TMP 3: DECISION-MAKING AND ANALYSIS**

3.1 **Principle:** *The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issued relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.*

**3.2 Schedule:**

<p>Major treasury decisions</p>	<p>As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Council will create and maintain an audit trail of major treasury management decisions which comprise either:</p> <ul style="list-style-type: none"> <li>a) Changes to Prudential Indicator(s) during the course of the financial year</li> <li>b) Options Appraisal to determine a funding decision</li> <li>c) raising a new long-term loan / long-term source of finance</li> <li>d) prematurely restructuring/redeeming an existing long-term loan(s)</li> <li>d) investing longer-term (i.e. in excess of 1 year)</li> <li>f) utilisation of investment instruments which constitute capital expenditure (i.e. loan capital/share capital in a body corporate)</li> <li>g) leasing</li> <li>h) change in banking arrangements</li> <li>i) appointing/replacing a treasury advisor</li> <li>j) appointing/replacing a fund manager</li> </ul>
<p>Process</p>	<p>The Council’s strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy.</p> <p>A rolling monthly cashflow forecast will be prepared for the ensuing 12 months and will include the financing, borrowing and surplus cash requirements of the Council, for the purpose of:</p> <ul style="list-style-type: none"> <li>• applying the strategy on a day to day basis</li> <li>• monitoring the results of the strategy</li> <li>• recommending amendments to the strategy to the Council where applicable during the course of the year.</li> </ul>
<p>Delegated powers for treasury management</p>	<p>The Section 151 Officer has delegated powers to carry out the Council’s strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.</p>

<p>Issues to be addressed, evaluation, authorisation</p>	<p>In exercising these powers, the Section 151 Officer and those to whom the treasury activity have been delegated will</p> <ul style="list-style-type: none"> <li>• have regard to the nature and extent of any associated risks to which the Council may become exposed;</li> <li>• be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained;</li> <li>• be satisfied that the documentation is adequate to deliver the Council’s objectives, protect the Council’s interests, and to maintain an effective audit trail;</li> <li>• ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits;</li> <li>• be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive; is this being carried out.</li> <li>• follow best practice in implementing the treasury transaction.</li> </ul> <p>In exercising Borrowing and Funding decisions, the Section 151 Officer will with advice from the council’s Treasury Management Advisors:</p> <ul style="list-style-type: none"> <li>• evaluate economic and market factors that may influence the manner and timing of any decision to fund;</li> <li>• consider alternative forms of funding, including use of revenue resources, leasing and private partnerships;</li> <li>• consider the use of internal resources and/or the most appropriate periods to fund and repayment profiles to use;</li> <li>• consider ongoing revenue liabilities created;</li> <li>• where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years.</li> </ul> <p>In exercising Investment decisions, the Section 151 Officer will:</p> <ul style="list-style-type: none"> <li>• Determine that the investment is within the Council’s strategy and pre-determined instruments and criteria;</li> <li>• consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions;</li> <li>• the credit risk associated with unsecured investments with banks and building societies</li> <li>• consider the alternative investment products and techniques available if appropriate.</li> </ul>
<p>Processes to be followed</p>	<p>The processes to be followed will be in keeping with TMP 4: The Council’s Approved, Instruments, Methods and Techniques.</p>

<p>Evidence and records to be kept</p>	<p>The Council will maintain a record of all major treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for an historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly.</p> <p>Records and working papers will be maintained by the Council electronically.</p>
<p>Other</p>	<p>The Council will maintain in its Operating Folder for the call dates for all LOBOs. The Council's Treasury Strategy will also state the maximum exposure to LOBOs being called in that financial year.</p> <p>A LOBO is called; the new interest rate will be reviewed against other borrowing rates, and will be redeemed if necessary.</p>

**4. TMP 4: APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

4.1 **Principle:** *The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in **TMPI Risk Management**.*

**4.2 Schedule:**

<p>Approved treasury management activities</p>	<p>The Council is permitted to undertake the following activities:</p> <ul style="list-style-type: none"> <li>▪ Managing cashflow</li> <li>▪ Capital financing</li> <li>▪ Borrowing including debt restructuring and debt repayment</li> <li>▪ Lending including redemption of investments</li> <li>▪ Banking</li> <li>▪ Leasing</li> <li>▪ Managing the underlying risk associated with the Council’s capital financing and surplus funds activities.</li> </ul> <p>The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques; however, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.</p>
<p>Approved capital financing methods and types/sources of funding</p>	<ul style="list-style-type: none"> <li>• Public Works Loans Board (PWLB) or its successor’s loans</li> <li>• long term money market loans including LOBOs</li> <li>• temporary money market loans (up to 364 days).</li> <li>• bank overdraft</li> <li>• loans from bodies such as the European Investment Bank (EIB)</li> <li>• Stock issues</li> <li>• Deferred Purchase</li> <li>• Government and EU Capital Grants</li> <li>• Lottery monies</li> <li>• Other Capital Grants and Contributions</li> <li>▪ Private Finance Initiative</li> <li>▪ Operating and finance leases</li> <li>▪ Hire purchase</li> <li>▪ Sale and leaseback</li> </ul> <p><u>Internal Resources</u></p> <ul style="list-style-type: none"> <li>• Capital Receipts</li> <li>• Revenue Balances</li> <li>• Use of Reserves</li> <li>•</li> </ul>

	<p><u>Approved sources of long-term and short-term borrowing include</u></p> <ul style="list-style-type: none"> <li>• Public Works Loan Board (PWLB) and its successor body</li> <li>• Any institution approved for investments</li> <li>• Any other bank or building society authorised to operate in the UK</li> <li>• UK public and private sector pension funds (except PCC Pension Fund)</li> <li>• Local Capital Finance Company and other special purpose vehicles created to enable local authority bond issues</li> </ul> <p>The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.</p>
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<p>Approved investment instruments</p>	<p>The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as ‘Specified’ or ‘Non Specified’ based on the criteria set out by the ODPM (now CLG) in its Investment Guidance March 2004 (as amended).</p> <p>The Council will, where applicable, use the Council’s credit criteria.</p> <p><i>examples</i></p> <ul style="list-style-type: none"> <li>▪ Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities</li> <li>▪ Term deposits with banks and building societies</li> <li>▪ Certificates of deposit</li> <li>▪ Callable deposits</li> <li>▪ Investments in Money Market Funds , i.e. ‘AAA’ liquidity funds with a 60-day Weighted Average Maturity (WAM)</li> <li>▪ Treasury Bills</li> <li>▪ Gilts</li> <li>▪ Bonds issued by multilateral development banks</li> <li>▪ Sterling denominated bonds by non-UK sovereign governments</li> <li>▪ Covered bonds (i.e. those with underlying collateral)</li> <li>▪ Unsecured corporate bonds</li> <li>▪ Reverse Repurchase Agreements (‘reverse repos’)</li> <li>▪ Investments with Registered Providers of Social Housing (i.e. housing associations)</li> <li>▪ Commercial paper</li> <li>▪ Floating Rate Notes</li> </ul>
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<p>Use of Derivatives</p>	<p>The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).</p> <p>As the Council is unlikely to use derivatives, it is a requirement of the CIPFA Code to clearly detail our policy on their in the annual treasury strategy.</p> <p>The Council will only use the following standalone financial derivatives: Swaps, forwards, futures and options as these can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.</p> <p>Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk.</p> <p>Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.</p> <p>Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.</p>
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**5. TMP 5: ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

- 5.1 **Principle:** *The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.*

*The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.*

*If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.*

*The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Section 151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.*

*The Section 151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.*

*The delegations to the Section 151 Officer in respect of treasury management are set out in the schedule below. The Section 151 Officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.*

**5.2 Schedule:**

*See Appendix I for Organisation Charts*

5.3 Schedule:

<p>Limits to responsibilities at Executive levels</p>	<p>Full Council:</p> <ul style="list-style-type: none"> <li>• receiving and reviewing Prudential Indicators as part of the budget setting process (following receipt by Cabinet)</li> <li>• receiving and reviewing reports on treasury management policies, practices and activities (following receipt by Audit Committee)</li> </ul> <p>The Cabinet:</p> <ul style="list-style-type: none"> <li>• approval of amendments to adopted clauses, treasury management policy statement</li> <li>• budget consideration and approval</li> <li>• receiving and reviewing external audit reports and acting on recommendations</li> <li>• approving the selection of external service providers and agreeing terms of appointment</li> </ul>
<p>Principles and practices concerning segregation of duties</p>	<p>The segregation of duties will be determined by the Treasury Management Lead Accountant.</p> <p>Segregation of duties exists in that:</p> <ul style="list-style-type: none"> <li>• the officers responsible for negotiating and closing treasury management deals also record the transactions in the cash book and completing cheque and bank reconciliations but are completely separate from the officer(s) who authorise the deals and any payments.</li> <li>• all borrowing/investments decisions must be authorised by the Section 151 officer or other nominated authorised officers (see below), depending on authorisation levels.</li> </ul>



<p>Statement of duties/ responsibilities of each treasury post Including absence cover arrangements</p>	<p>The Section 151 Officer</p> <ul style="list-style-type: none"> <li>• Submit budgets and budget variations in accordance with Financial Regulations and guidance.</li> <li>• Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance</li> <li>• Determine Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy.</li> <li>• In setting the prudential indicators, be responsible for ensuring that all matters are taken into account and reported to the Council so as to ensure the Council's financial plans are affordable, prudent and sustainable in the long term.</li> <li>• Establish a measurement and reporting process that highlights significant variations from expectations.</li> <li>• Submit regular treasury management reports as required to the council/cabinet/audit committee.</li> <li>• Receiving and reviewing management information reports.</li> <li>• Review the performance of the treasury management function and promote best value reviews.</li> <li>• Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.</li> <li>• Ensure the adequacy of internal audit, and liaising with external audit.</li> <li>• Recommend on appointment of external service providers in accordance with council standing orders.</li> <li>• Provide regular updates to relevant Cabinet Members.</li> <li>• Delegated authority to approve loans over 1 year and investments up to 10 years.</li> <li>• Delegated authority to approve loan repayments/rescheduling.</li> <li>• The Section 151 Officer may delegate his power to borrow and invest to the Head of Corporate Strategy (Deputy S151 Officer), Lead Accountants and relevant Senior Technical Accountants and Technical Accounting Officers as appropriate.</li> </ul>
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Head of Corporate Strategy

- The responsibilities of this post will include covering the full responsibilities of the Section 151 Officer in their absence.
- Delegated authority to approve loans over 1 year and investments up to 50 years.
- Delegated authority to approve loan repayments/rescheduling.
- Submit budgets and budget variations in accordance with Financial Regulations and guidance.
- Establish a measurement and reporting process that highlights significant variations from expectations.

Lead Accountant

- Prepare draft Treasury Management Policy, Treasury Management strategy and investment strategy, Annual Treasury Management report and Treasury Management Practices.
- Recommend early repayment of debt over one year and subject to the approval of the Section 151 Officer, or the Head of Corporate Strategy arrange the repayment of these loans.
- Prepare budget for capital financing including all treasury management loan and investment activities including MTFP.
- Submitting management information reports to the Treasury Management Board, Section 151 Officer and Head of Corporate Strategy.

Lead Accountant and Principal Technical Accountant

- To provide cover in the absence of the Senior Technical Accounting Officer and Technical Accounting Officer and to cover the full responsibilities of this post.
- Maintaining relationships with third parties and external service providers and reviewing their performance.
- Adherence to agreed policies and practices on a day-to-day basis.
- Identifying and recommending opportunities for improved practices.
- Authority to borrow for periods up to 1 year and lending up to 1 month. Lending in excess of 1 month subject to the agreement of the Treasury Management Board and/or the approval of the Section 151 Officer or head of Corporate Strategy.
- Following approval by the Section 151 Officer undertake all borrowing over 1 year and deposits/investments up to 10 year maturity.
- Make recommendations on all lending up to 10 years and borrowing over 1 year maturity.
- Updating the Treasury Management Board with information on credit ratings, share prices, economic and press news impacting on the credit quality of the Council's deposits.

Senior Technical Accounting Officer and Technical Accounting Officer

- Negotiates and closes treasury management deals and records the transaction and payments obtaining authorisation as described above.
- Carrying out the execution of transactions
- Monitoring performance on a day-to-day basis.
- Identifying and recommending opportunities for improved practices.
- Using the counterparties list provided by the Council's Treasury Management advisers.
- Maintaining the Council's cash flow forecast ensuring funds are available to meet the Council's financial commitments.

Full procedure notes are available detailing the processes required to

	Cover is reviewed at least every 12 months, or as necessary. Cover in the absence of the relevant treasury management officer is provided by (depending on authorisation levels):
Description of the relationships between the chief finance officer, the monitoring officer and the head of paid service.	The Section 151 Officer (Chief Finance Officer) and the Head of Legal Services (Monitoring Officer), report into the Strategic Director for Transformation and Change, who in turn reports into the Chief Executive (Head of Paid Services).

#### 5.4 Dealing

Authorised officers	<p>Responsible officer for borrowing/investment decisions :</p> <p>Borrowing activity:</p> <ul style="list-style-type: none"> <li>• Section 151 Officer</li> <li>• Head of Corporate Strategy</li> <li>• Senior Finance Analyst</li> <li>• Lead Accountant</li> </ul> <p>Lending activity:</p> <ul style="list-style-type: none"> <li>• Section 151 Officer</li> <li>• Head of Corporate Strategy</li> <li>• Senior Finance Analyst</li> <li>• Lead Accountant</li> </ul> <p>Authorising payments for borrowing/lending</p> <ul style="list-style-type: none"> <li>• Overnight; <ul style="list-style-type: none"> <li>○ Senior Technical Accounting Officer</li> <li>○ Technical Accounting Officer</li> </ul> </li> <li>• Under 1 year <ul style="list-style-type: none"> <li>○ Lead Accountant</li> </ul> </li> <li>• Over 1 year <ul style="list-style-type: none"> <li>○ Section 151 Officer</li> <li>○ Head of Corporate Strategy</li> </ul> </li> </ul> <p>Transaction recording:</p> <ul style="list-style-type: none"> <li>• Principal Technical Accountant</li> <li>• Senior Technical Accounting Officer</li> <li>• Technical Accounting Officer</li> </ul>
Dealing limits	<p>Internally Managed Investments:</p> <ul style="list-style-type: none"> <li>• Deposits up to 3 months with unlimited value with the Debt Management Office or £10m with an approved Local Authority or £20m with an approved bank or building society subject to the limits detailed in the Council’s Annual Investment strategy and the approved lending list.</li> </ul>
List of approved brokers	Brokers used by the Council are named in TMP 11: External Service Providers

Policy on brokers' services	It is the Council's policy to utilise the services between at least two brokers. The Council will maintain a spread of business between them in order to avoid relying on the services of any one broker.
Policy on taping of conversations	Conversations with brokers are taped by the brokers, but not by the Council.
Direct dealing practices	<p>Direct dealing is carried out with institutions and with external pooled funds identified in the Operational Schedule subject to counterparty and maturity limits and dealing limits.</p> <p>Prior to undertaking direct dealing, the Council will ensure that each counterparty / fund has been provided with the Council's list of authorised dealers and the Council's Standard Settlement Procedures.</p> <p>The template for the Council's Standard Settlement Procedures is included in the Operational Schedule.</p>
Deal Ticket proforma	Deals will be recorded as per the deal ticket proforma (proforma maintained at operational level)
Settlement transmission procedures	<ul style="list-style-type: none"> <li>• settlements are made by CHAPS.</li> <li>• all CHAPS payments relating to settlement transactions require authorisation by the Lead Accountants in Finance.</li> <li>• all CHAPS payments require 1 bank signatures</li> <li>• the details are transmitted online to the Council's bankers.</li> </ul>
Documentation requirements	<p>For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date(s), broker.</p> <p>Investments</p> <ul style="list-style-type: none"> <li>• deal ticket authorising the investment</li> <li>• confirmation from the broker</li> <li>• confirmation from the counterparty</li> <li>• Contract notes for purchase and sale of shares/units in pooled funds from the fund's manager/administrator</li> <li>• Chaps payment transmission document</li> </ul> <p>Loans:</p> <ul style="list-style-type: none"> <li>• deal ticket with signature to agree loan</li> <li>• confirmation from the broker</li> <li>• confirmation from PWLB/market counterparty</li> <li>• Chaps payment transmission document for repayment of loan.</li> </ul>
Arrangements concerning the management of counterparty funds	<ul style="list-style-type: none"> <li>• The Treasury Management Lead Accountant has responsibility for updating the Council's records with any credit developments.</li> <li>• The Treasury Management Lead Accountant is tasked with the responsibility for checking that records have been correctly updated to reflect any credit developments.</li> </ul>

**6. TMP 6: REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

6.1 **Principle:** *The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.*

*As a minimum, the Council and Audit Committee will receive:*

- *An annual report on the strategy and plan to be pursued in the coming year*
- *A mid-year review*
- *An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation’s treasury management policy statement and TMPs.*

*The Strategic Treasury Management Board will receive regular monitoring reports on treasury management activities and risks.*

*The audit committee will have responsibility for the scrutiny of treasury management policies and practices.*

*The present arrangements and the form of these reports are outlined below.*

**6.2 Schedule:**

<p>Frequency of executive reporting requirements</p>	<p>The Section 151 Officer will annually submit budgets and will report on budget variations as appropriate.</p> <p>The Section 151 Officer will submit the <b>Prudential Indicators</b> and the <b>Treasury Strategy Statement (including Annual Investment Strategy)</b> and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to the Council before the start of the year.</p> <p>The <b>Annual Treasury Report</b> will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September.</p> <p>A <b>Mid-Year Treasury Report</b> will be prepared by the Section 151 Officer, which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Council during the year.</p>
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<p>Content of Reporting: I. Prudential Indicators</p>	<p>The Council will set the following Prudential Indicators, revise if necessary, and in its annual / semi-annual reports publish 32actual outturn (where appropriate) in respect of:</p> <ul style="list-style-type: none"> <li>▪ Financing costs as a proportion of net revenue stream (estimate; actual)</li> <li>▪ Capital expenditure (estimate; actual)</li> <li>▪ Incremental impact of capital financing decisions (estimate)</li> <li>▪ Capital Financing Requirement (estimates; actual)</li> <li>▪ Authorised limit for external debt</li> <li>▪ Operational boundary for external debt</li> <li>▪ Actual external debt</li> </ul> <p>Treasury indicators</p> <ul style="list-style-type: none"> <li>▪ Upper limits on fixed and variable rate interest exposures</li> <li>▪ Upper and lower limits to maturity structure of fixed rate borrowing</li> <li>▪ Upper limit to total of principal sums invested longer than 364 days.</li> </ul> <p>The Prudential Indicators are approved and revised by Council and are integrated into the Council’s overall financial planning and budget process.</p> <p>The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p>
<p>2. Treasury Strategy Statement including the Annual Investment Strategy</p>	<p>The Treasury Strategy Statement integrates with the Prudential Indicators being set and will include the following:</p> <ul style="list-style-type: none"> <li>• Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing three years</li> <li>• Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next three years and for restructuring of debt</li> <li>• the extent to which surplus funds are earmarked for short term requirements</li> <li>• the investment strategy for the forthcoming year(s) (<i>see below*</i>)</li> <li>• the minimum to be held in short term/specified investment during the coming year</li> <li>• the interest rate outlook against which the treasury activities are likely to be undertaken.</li> </ul> <p>*Based on the ODPM’s (now CLG’s) Guidance on Investments, the Council will produce an Annual Investment Strategy (AIS) which sets out</p> <ul style="list-style-type: none"> <li>▪ the objectives, policies and strategy for managing its investments;</li> <li>▪ the determination of which Specified and Non Specified Investments the Council will utilise during the forthcoming financial year(s) based on the Council’s economic and investment outlook and the expected level of investment balances;</li> <li>▪ the limits for the use of Non-Specified Investments.</li> </ul> <p>The AIS will be integrated into the Treasury Strategy Statement. The audit committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p>

<p>3. Annual Treasury Report</p>	<p>The Section 151 Officer will produce an annual report for the Audit Committee on all activities of the treasury management function (including the performance of fund managers) as soon as practicable after year end and in all cases no later than 30 September of the succeeding financial year.</p> <p>The main contents of the report will comprise:</p> <ul style="list-style-type: none"> <li>▪ confirmation that the Council calculated its budget requirements and set a balanced budget for the Financial Year;</li> <li>▪ the prevailing economic environment</li> <li>▪ a commentary on treasury operations for the year, including their revenue effects;</li> <li>▪ commentary on the risk implications of treasury activities undertaken and the future impact on treasury activities of the Council</li> <li>▪ compliance with agreed policies/practices and statutory/regulatory requirements</li> <li>▪ compliance with Prudential Indicators;</li> <li>▪ performance measures.</li> </ul> <p>The audit committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p>
<p>4. Mid-Year Treasury Report</p>	<p>The Section 151 Officer will produce a mid-year report for Council on the borrowing and investment activities of the treasury management function (including performance of fund managers) for the first six months of the financial year.</p> <p>The main contents of the report will comprise:</p> <ul style="list-style-type: none"> <li>• Economic background</li> <li>• Economic forecast (including interest rates forecast)</li> <li>• Treasury Management Strategy Statement update</li> <li>• Performance versus benchmarks</li> <li>• Borrowing information (including premature repayment, new loans information)</li> <li>• Information on investments, including current lending list</li> <li>• Prudential indicators relating to treasury management</li> <li>• Governance framework and scrutiny arrangements</li> </ul> <p>The Audit Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.</p>
<p>Content and frequency of management information reports</p>	<p>The Treasury Management Lead Accountant provides information for the council's Treasury Management advisors who then provide a quarterly monitoring report to the Strategic Treasury Management Board.</p> <p>This report includes details of:</p> <ul style="list-style-type: none"> <li>• borrowing and investment activity undertaken including forward deals</li> <li>• performance of internal and external investments against benchmark</li> <li>• cash flow monitoring</li> <li>• extent of compliance with the treasury strategy and reasons for variance (if any)</li> <li>• Prudential Indicator monitoring and compliance</li> </ul>

**7. TMP 7: BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

7.1 **Principle:** *The Section 151 Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with **TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques.** The form which the Council’s budget will take is set out in the schedule below.*

*The Section 151 Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with **TMP6 Reporting requirements and management information arrangements.***

*The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council’s accounts is set out in the schedule.*

*The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed below.*

**7.2 Schedule:**

Statutory/regulatory requirements	<p><b>Balanced Budget Requirement:</b> The provisions of S32 and S43 of the Local Government Finance Act 1992 require this Council to calculate its budget requirement for each financial year including, among other aspects;</p> <ul style="list-style-type: none"> <li>(a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account and</li> <li>(b) revenue costs which flow from capital financing decisions.</li> </ul> <p>S33 of the Act requires the Council to set a council tax sufficient to meet expenditure after taking into account other sources of income.</p>
Proper accounting practice	<p>CIPFA’s Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes “proper accounting practice under the terms of S21 (2) of the Local Government Act 2003”.</p>



Financial Statements	<p>The Financial Statements comprise:</p> <ul style="list-style-type: none"> <li>▪ An explanatory foreword</li> <li>▪ Accounting policies, changes in accounting estimates and errors</li> <li>▪ Presentation of financial statements</li> <li>▪ Movement in reserves statement</li> <li>▪ Comprehensive income and expenditure statement</li> <li>▪ Balance sheet</li> <li>▪ Cash flow statement</li> <li>▪ Housing revenue account</li> <li>▪ Collection Fund (England)</li> <li>▪ Statement of Responsibilities</li> <li>▪ The Accounting Statements</li> <li>▪ Additional Financial Statements (Housing Revenue Account, Collection Fund)</li> <li>▪ Notes to the financial statements</li> <li>▪ Statements reporting reviews of internal controls or internal financial controls</li> <li>▪ Events after the reporting period</li> <li>▪ Related party disclosures</li> </ul>
Format of the Council's accounts	The current form of the Council's accounts is available within the Finance Department.
Disclosures relating to treasury management	Due regard will be given to the disclosure requirements under CIPFA's Accounting Code of Practice.

<p>Treasury-related information requirements of external auditors</p>	<p>The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council’s officers.</p> <p>Information in this context includes internally generated documents including those from the Council’s Treasury Management System, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.</p> <ul style="list-style-type: none"> <li>▪ Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.</li> <li>▪ Prudential Indicators.</li> <li>▪ Treasury Management Strategy including Annual Investment Strategy.</li> </ul> <p><u>External borrowing:</u></p> <ul style="list-style-type: none"> <li>• New loans borrowed during the year : PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments)</li> <li>• Loan maturities.</li> <li>• Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years.</li> <li>• Analysis of loans outstanding at year end including maturity analysis.</li> <li>• Analysis of borrowing between long- and short-term</li> <li>• Debt management and financing costs             <ul style="list-style-type: none"> <li>▪ calculation of (i) interest paid (ii) accrued interest</li> <li>▪ interest paid</li> </ul> </li> <li>• MRP calculation and analysis of movement in the CFR.</li> <li>• Bank overdraft position.</li> <li>• Brokerage/commissions/transaction related costs.</li> </ul>
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	<p><u>Investments:</u></p> <ul style="list-style-type: none"> <li>• Investment transactions during the year including any transaction-related costs</li> <li>• cash and bank balances at year end</li> <li>• Short-term investments at year end</li> <li>• Long-term investments at year end (including investments in associates and joint ventures) by asset type, including unrealised gains or losses at year end</li> <li>• calculation of (i) interest received (ii) accrued interest</li> <li>• actual interest received</li> <li>• External fund manager valuations including investment income schedule and movement in capital values, transaction confirmations received (if any)</li> <li>• Basis of valuation of investments</li> <li>• Evidence of existence and title to investments (e.g. Custodian's Reports. Schedule of any investments in companies together with their latest financial statements); statement of transactions between the company and the Council.</li> </ul>
	<p><u>Cash Flow</u></p> <ul style="list-style-type: none"> <li>▪ Reconciliation of the movement in cash to the movement in net debt</li> <li>▪ Cash inflows and outflows (in respect of long-term financing)</li> <li>▪ Cash inflows and outflows (in respect of purchase/sale of long-term investments)</li> <li>▪ Net increase/decrease in (i) short-term loans (ii) short-term deposits (iii) other liquid resources</li> </ul> <p><u>Other</u></p> <ul style="list-style-type: none"> <li>▪ Amounts which are held on behalf of schools, amounts which are held by schools under delegated schemes</li> <li>▪ Details of (treasury-related) material events after balance sheet date not reflected in the financial statements.</li> <li>▪ External advisors'/consultants' charges</li> </ul>
<p>Internal Audit</p>	<p>Internal Audit conducts a review of the treasury management function and probity testing, as per their annual plan. The internal auditors will be given access to treasury management information/documentation as required by them.</p>
<p>Compliance with CIPFA Treasury Management and Prudential Codes</p>	<p>Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy.</p> <p>Any serious breach of the TM Code's recommendations or Prudential Indicators should be brought to the attention of the external auditor.</p>
<p>Costs for treasury management</p>	<p>The budget for treasury management forms part of the Corporate Items budget.</p>

**8. TMP 8: CASH AND CASH FLOW MANAGEMENT**

8.1 **Principle:** *Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Section 151 Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with **TMPI [2] liquidity risk management**. The present arrangements for preparing cash flow projections and their form are set out in the schedule below.*

**8.2 Schedule:**

<p>Arrangements for preparing /submitting cash flow statements</p>	<p>Cash flow forecasts will be viewed over one time horizons and will be used to formulate the Council’s borrowing and investment strategy by identifying periods of surplus or shortfall of cash balances.</p> <p>The cash flow forecasts and statements are held at operational level.</p> <p>The accuracy and effectiveness of the Council’s cash flows are dependent on the accuracy of estimating expenditure, income and their corresponding time periods.</p> <p>An <b>outline medium-term cash flow</b> model is prepared as part of the budget process, with projections for 3 further years. It is highly summarised and looks mainly at cash flows arising from the capital programme, the in-year capital financing requirement, scheduled loan repayments and long-term investment maturities, and anticipated movements in reserves.</p> <p>A <b>detailed annual cash flow</b> is prepared for the financial year once the budget for the ensuing year has been agreed, which is monitored and updated on a monthly basis. It identifies the major inflows and outflows on a month by month basis.</p> <p>It is prepared using the agreed revenue budget and capital programme for the financial year and based on the knowledge obtained from the Council’s various service sections incurring the expenditure /receiving the income and can be supplemented by the experience from previous years.</p> <p><b>Daily cash flows</b> show forecast and planned movements of cash on a daily basis, including the matching of known inflows and payments. This is recorded in the excel cashflow document.</p>
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<p>Content and frequency of cash flow projections</p>	<p>The detailed annual cash flow model includes the following:</p> <ul style="list-style-type: none"> <li>• revenue income and expenditure based on the budget.</li> <li>• profiled capital income and expenditure as per the capital programme.</li> </ul> <p><b>Revenue activities:</b></p> <p><u>Inflows:</u></p> <ul style="list-style-type: none"> <li>▪ Revenue Support Grant</li> <li>▪ Precepts received</li> <li>▪ Non domestic rates receipts</li> <li>▪ NNDR receipts from national pool</li> <li>▪ Council tax receipts</li> <li>▪ DSS / other government grants</li> <li>▪ Cash for goods and services</li> <li>▪ Other operating cash receipts</li> </ul> <p><u>Outflows:</u></p> <ul style="list-style-type: none"> <li>▪ Salaries and payments on behalf of employees</li> <li>▪ Operating cash payments</li> <li>▪ Housing Benefit paid</li> <li>▪ Precepts paid</li> <li>▪ NNDR payments to national pool</li> <li>▪ Payments to the capital receipts pool</li> </ul> <p><b>Capital activities including financing</b></p> <p><u>Inflows:</u></p> <ul style="list-style-type: none"> <li>▪ Capital grants received</li> <li>▪ Sale of fixed assets</li> <li>▪ Other capital cash receipts</li> </ul> <p><u>Outflows:</u></p> <ul style="list-style-type: none"> <li>▪ Purchase of fixed assets</li> <li>▪ Purchase of long-term investments</li> <li>▪ Other capital cash payments</li> </ul> <p><b>Financing, Servicing of Finance/Returns on Investments</b></p> <p><u>Inflows:</u></p> <ul style="list-style-type: none"> <li>▪ New long-term loans raised</li> <li>▪ New short-term loans raised</li> <li>▪ Interest received</li> <li>▪ Discount on premature repayment of loan</li> </ul> <p><u>Outflows:</u></p> <ul style="list-style-type: none"> <li>▪ Loan repayments</li> <li>▪ Premia on premature repayment of loan</li> <li>▪ Short-term investments</li> <li>▪ Capital element of finance lease rental payments</li> <li>▪ Interest paid</li> <li>▪ Interest element of finance lease rental payments</li> </ul>
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<p>Monitoring, frequency of cash flow updates</p>	<p>The annual cash flow statement is updated monthly with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with:</p> <ul style="list-style-type: none"> <li>• net RSG and NNDR payments as notified;</li> <li>• actual salaries and other employee costs paid from account bank statements;</li> <li>• actual payments to Inland Revenue from general account bank statements;</li> <li>• actual council tax received;</li> <li>• actual housing benefit;</li> <li>• actual capital programme expenditure and receipts.</li> </ul>
<p>Bank statements procedures</p>	<p>The Council receives online bank statements uploaded on a daily basis. These are posted independent of the treasury function and are reconciled to the general ledger on a monthly basis.</p>
<p>Payment scheduling</p>	<p>The Council has a policy of paying suppliers in line with agreed terms of trade and the following service standards:</p> <ul style="list-style-type: none"> <li>• Small and medium enterprises (SME's – business employing up to 250 people) to be paid within 15 days of receipt of invoice.</li> <li>• All other creditors to be paid within 30 days of receipt of invoice.</li> </ul>
<p>Monitoring debtor/ creditor levels</p>	<p>Debtor levels are monitored by a monthly Sundry Debtors Monitoring Report which will include an analysis of debt by age and details and details of recovery status.</p> <p>The level of Creditor invoices being processed / remaining unpaid is monitored on a daily basis by the Transaction Centre. A report is produced within three days of the BACS run with details all BACS and cheque payments for the next day in advance and recorded in the cashflow spreadsheet.</p>
<p>Banking of funds</p>	<p>Instructions for the banking of income are set out in the Financial Regulations. Cash and cheques received in the cashiers section are banked weekly.</p> <p>All the Council's sections are advised of the requirement to bank on a regular basis in order to comply with recommended best practice and also remain within the particular insurance limits for the Council's premises.</p>

<p>Listing of sources of information</p>	<p>The treasury function receives cash flow information from the following persons/departments:</p> <table border="1" data-bbox="491 264 1342 495"> <thead> <tr> <th>Type of Information</th> <th>Source</th> </tr> </thead> <tbody> <tr> <td>Capital Spend and Receipts</td> <td>Capital Accounting Team</td> </tr> <tr> <td>Government Grants</td> <td>Logasnet</td> </tr> <tr> <td>Payroll</td> <td>HR payroll department</td> </tr> <tr> <td>Debtors and Creditors</td> <td>Transaction Centre</td> </tr> <tr> <td>Loans and Deposits</td> <td>Treasury Management Team</td> </tr> </tbody> </table>	Type of Information	Source	Capital Spend and Receipts	Capital Accounting Team	Government Grants	Logasnet	Payroll	HR payroll department	Debtors and Creditors	Transaction Centre	Loans and Deposits	Treasury Management Team
Type of Information	Source												
Capital Spend and Receipts	Capital Accounting Team												
Government Grants	Logasnet												
Payroll	HR payroll department												
Debtors and Creditors	Transaction Centre												
Loans and Deposits	Treasury Management Team												
<p>Practices concerning prepayments to obtain benefits</p>	<p>The following practices concerning prepayments are followed to obtain benefits:</p> <p>All prepayments must be authorised by the approved signatory in the respective department.</p>												

**9. TMP 9: MONEY LAUNDERING**

9.1 **Background:** The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering are:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention use or control of criminal property
- Acquiring, using or possessing criminal property.

Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2003 Regulations.

CIPFA believes that public sector organisations should “embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities”.

9.2 **Principle:** *The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff members involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule below.*

**9.3 Schedule:**

<p>Anti money laundering policy</p>	<p>This Council’s policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.</p> <p>The Council has accepted responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.</p>
<p>Treasury documentation</p>	<p>The Authority will reflect the anti-laundering measures it has in place as part of its treasury documentation. Such measures include:</p> <ul style="list-style-type: none"> <li>– Awareness of what constitutes money laundering;</li> <li>– The obligation to report knowledge of/having reasonable grounds to believe an offence might be committed;</li> <li>– Maintaining up-to-date direct dealing and SSI mandates with counterparties</li> </ul>



<p>Nomination of Responsible Officer(s)</p>	<p>(a) The Council has nominated the Section 151 Officer to be the responsible officer(s) to whom any suspicions relating to transactions involving the Council will be communicated.</p> <p>(b) The responsible officer(s) will be conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions.</p> <p>(c) The responsible officer(s) will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).</p>
<p>Procedures for establishing the Identity of Lenders and Borrowers</p>	<p>(a) In the course of its treasury activities, the Council will only borrow from permitted sources identified in TMP 4.</p> <p>(b) The Council will not accept loans from individuals.</p> <p>(c) In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list.</p> <p>(d) The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Bank of England/ Prudential Regulation Authority’s website.</p> <p>(e) All receipts/disbursements of funds will be undertaken by BACS or CHAPS settlement.</p> <p>(f) Direct Dealing mandates: The Council will provide (in the case of lending) / obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed.</p> <p>(g) All banking transactions will only be undertaken by the personnel authorised to operate the Council’s banks accounts.</p> <p>(h) If the Authority takes/provides loans from individuals, it will establish robust procedures for verifying and recording the appropriate financial and personal information of such individuals.</p> <p>(i) When receiving requests for change of payment details, due care will be exercised to ascertain the bona fide of the request and avoid potential fraud. Additional checks will be made through pre-existing contact details for the payee before altering payment details.</p>

## 10. TMP 10: TRAINING AND QUALIFICATIONS

10.1 **Principle:** *The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 Officer will recommend and implement the necessary arrangements.*

*The Section 151 Officer will ensure that council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.*

*Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.*

*The present arrangements are detailed in the schedule below.*

### 10.2 Schedule:

Qualifications/ experience for treasury staff	To be qualified or training towards qualification of one of the accepted accountancy bodies, i.e. CIPFA, ACA, ACCA, CIMA. Attend treasury training as provided by our Treasury Advisors.
Details of approved training courses	The courses/events the Council would expect its treasury personnel to consider are: <ul style="list-style-type: none"> <li>▪ Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance &amp; Borrowing, Financial Management run by CIPFA and IPF</li> <li>▪ Any courses/seminars run by Treasury Management Consultants.</li> <li>▪ Attending CIPFA seminars and workshops</li> <li>▪ Training attended by those responsible for scrutiny of the treasury function</li> </ul> <p>The Council participates in a CIPFA Employer Accreditation Scheme for CPD purposes which is based on planning, recording and evaluating development.</p>
Records of training received by treasury staff	Treasury-related training records are maintained.
Records of training received by those charged with governance	Training records are maintained of those people/committees responsible for governance of treasury management.

**11. TMP 11: USE OF EXTERNAL SERVICE PROVIDERS**

11.1 **Principle:** *The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer, and details of the current arrangements are set out in the schedule below.*

**11.2 Schedule:**

Contract threshold	The Council’s Financial Regulations require that a formal contract is in place with external service providers where the contract value is £200k and above. The contract will clearly state the services to be provided and the terms on which they will be provided.
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<p>Details of service providers and procedures and frequency for tendering services</p>	<p>(a) Bankers to the Council: Barclays Bank, 140-146 Armada Way, Plymouth, PL1 1LA. Tel: 0345 7 345 345 Contract period: Commenced 1<sup>st</sup> April 2014</p> <p>(b) Treasury advisor Arlingclose Limited, 60 Moorgate, London, EC2R 6EL. Tel: 08448 808 200 Contract period: Commenced 1<sup>st</sup> January 2015</p> <p>(c) External Fund Manager King &amp; Shaxson, 6<sup>th</sup> Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS</p> <p>(d) Brokers: It is considered good practice for the Council to have at least two brokers and to spread business between them. Tullett Prebon Limited, Level 3, 155 Bishopsgate, London, EC2M 3TQ. Tel: 020 7200 7000</p> <p>Tradition (UK), Beaufort House, 15 St. Botolph Street, London, EC3A 7QX. Tel: 020 7198 1500</p> <p>London Currency Brokers, LCB House, 8A The Broadway, Pitsca, Essex, SS13 3AY.</p> <p>Martin Brokers (UK) Plc, One Churchikk Place, Canary Wharf, London, E14 5RD. Tel: 020 7469 9000</p> <p>Sterling International Brokers Limited One Churchill Place, 18<sup>th</sup> Floor, London, EC4 5RD. Tel: 020 7962 9960</p>
<p>Regulatory status of services provided</p>	<p>The Council's external service providers are listed below, along with their regulatory status: All financial services providers are regulated by the Financial Services authority (FSA).</p>
<p>Details of service provided by Treasury Advisor</p>	<p>The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, debt rescheduling and use of various borrowing and investment instruments.</p>
<p>Bribery Act</p>	<p>The Council is mindful of the requirements of the Bribery Act 2011 in its dealings with external providers</p>

**12. TMP 12: CORPORATE GOVERNANCE**

12.1 *Principle: The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.*

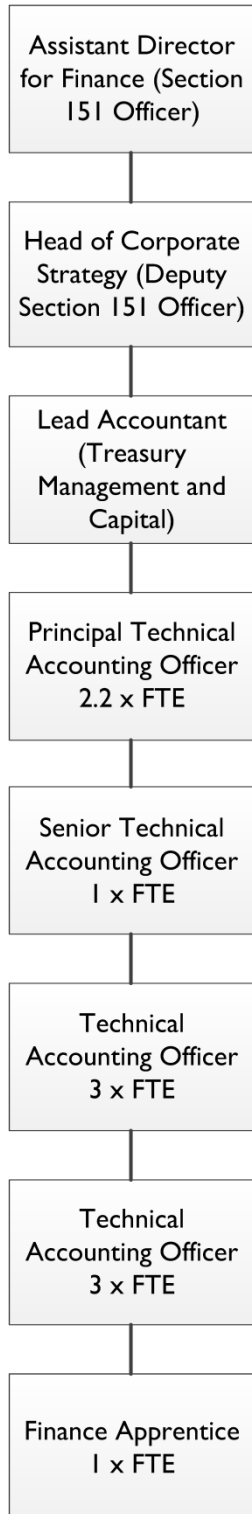
*The Council has adopted and has implemented the key recommendations of the Treasury Management Code of Practice (Revised 2009). This, together with the other arrangements detailed in the schedule below, are considered vital to the achievement of proper corporate governance in treasury management, and the Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.*

**12.2 Schedule:**

Stewardship responsibilities	The S151 Officer ensures that systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function.
List of documents to be made available for public inspection.	The following documents are freely available for public inspection: <ul style="list-style-type: none"> <li>▪ Annual Statement of Accounts</li> <li>▪ Budget Book</li> <li>▪ 5 Year Capital Plan</li> <li>▪ Treasury Management Policy</li> <li>▪ Treasury Management Strategy</li> <li>▪ Budget Monitoring Reports</li> <li>▪ Annual Treasury Report</li> </ul>
Council’s website.	Financial information is additionally available on the Council’s website.
Procedures for consultation with stakeholders.	Members and senior officers of the Council are consulted via reports to the Audit Committee and officer/member briefing sessions.

**Appendix I**

Organisation Chart for Capital and Treasury Management



**PLYMOUTH CITY COUNCIL**

<b>Subject:</b>	Strategic Risk and Opportunity Register – Monitoring Report
<b>Committee:</b>	Audit Committee
<b>Date:</b>	24 March 2016
<b>Cabinet Member:</b>	Councillor Lowry
<b>CMT Member:</b>	Lesa Annear (Strategic Director for Transformation and Change)
<b>Author:</b>	Mike Hocking, Head of Corporate Risk and Insurance
<b>Contact details</b>	Tel: 01752 304967 email: mike.hocking@plymouth.gov.uk
<b>Ref:</b>	CRM/MJH
<b>Key Decision:</b>	No
<b>Part:</b>	I

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**Purpose of the report:**

This report provides a summary of the latest formal monitoring exercise completed for the Strategic Risk and Opportunity Register for the period September 2015 to February 2016.

A review of the strategic risk and opportunity register has been undertaken to ensure the risks included on it are those that affect or are created by our strategic objectives. Reducing the number of risks will also allow the Corporate Management Team to carry out more proactive management of the key risks that may impact on our Corporate Plan.

Appendix A to the report provides the revised risk and opportunity register showing the current status of each risk and the movement in risk score compared with the previous monitoring period.

Overall, as a result of the review, the total number of risks now reported on the strategic risk and opportunity register has reduced from 36 to 12.

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**The Brilliant Co-operative Council Corporate Plan 2013/14 -2016/17:**

The Strategic Risk and Opportunity Register includes links to the Corporate Plan objectives – monitoring of control action for strategic risks therefore contributes to the delivery of the Council's core objectives.

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**Implications for Medium Term Financial Plan and Resource Implications:  
Including finance, human, IT and land**

None arising specifically from this report but control measures identified in risk and opportunity registers could have financial or resource implications.

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**Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:**

None arising specifically from this report but community safety, health and safety issues and risks are taken into account in the preparation of risk and opportunity registers.

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**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? Not required.

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**Recommendations and Reasons for recommended action:**

The Audit Committee is recommended to:  
 Note and endorse the current position with regard to the Strategic Risk and Opportunity Register.

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**Alternative options considered and rejected:**

Effective risk management processes are an essential element of internal control and as such are an important element of good corporate governance. For this reason alternative options are not applicable.

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**Published work / information:**

Plymouth City Council Risk and Opportunity Management [Strategy](#).

**Background papers:**

None.

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	

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**Sign off:**

Fin	djn15 16.80	Leg	DVS2 5272	Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member: Andrew Hardingham, Assistant Director for Finance													
Has the Cabinet Member(s) agreed the contents of the report? Yes													



## **1.0 Introduction**

**1.1** The position with regard to the Strategic Risk and Opportunity Risk Register was last reported to this Committee on [17 September 2015](#) and this report now provides a summary of the latest monitoring exercise covering the position as at 29 February 2016.

## **2.0 Strategic Risk & Opportunity Register Review**

- 2.1** Strategic risks can be defined as risks that affect the aims and objectives of the corporate body or hinder/stop successful achievement of corporate aims or priorities. As such they are key matters for the Corporate Management Team and impact on the whole organisation rather than just one department or service area. Operational risks are those that refer to potential issues arising from the normal business operations. Operational risks can be managed and mitigated by internal control systems at line management level.
- 2.2** The review of the format and content of the strategic register has been carried out in order to allow the Corporate Management Team to focus only on those risks and opportunities arising from our Corporate Plan objectives and high level outcomes and provide more oversight and challenge on action plans for mitigating those risks.
- 2.3** A new column entitled 'Critical Success Factor' has been added to describe the link to a high level goal, strategy or project to enable consideration as to what organisational/corporate themes the risks identified could impact.
- 2.4** New columns have also been added to articulate how the progress of action plans will be measured with target/review date and named responsible officers.
- 2.5** This new format therefore now gives a fuller picture of individual risks with a more detailed risk description and consequences, links to the delivery of key objectives or projects as well as information on existing and planned mitigations.
- 2.6** A list of risks to be transferred to department operational registers is shown in the shaded area of the register (rows 16 to 37) and these risks will be formally monitored in June 2016 in line with our risk and opportunity management strategy.
- 2.7** Low scoring green risks that have been mitigated to an acceptable level and are not expected to increase in score have been removed so that focus is maintained on risks scored 12 and above.

## **3.0 Strategic Risk and Opportunity Register – Monitoring Summary**

- 3.1** In accordance with the strategy requirement for twice-yearly monitoring, the latest review and monitoring exercise was completed in February 2016 with the results discussed and agreed by CMT on 16 February 2016 and Cabinet Planning on 23 February 2016.
- 3.2** Attached to this report at Appendix A is the revised strategic risk and opportunity register showing the current status of each risk and any movement in risk score

compared with previous monitoring periods together with explanatory commentary on the key issues for each risk.

### 4.0 **Headline Issues**

#### 4.1 **Risk Score Unchanged**

##### **Red Risk 95 – Medium Term Financial Strategy 2016-2020 (Row No. 1)**

The Council is adopting a balanced 2016/17 revenue (which includes a drawdown from existing reserves and provisions) and capital budget and the development of an MTFS to 2019/20. Finance and People Directorate SMT are working in collaboration with the NHS Success Regime to ensure the Plymouth Integrated Fund is not compromised. Finance is working with CMT to improve the production of the budget and MTFS reviewing what went well and what could be improved.

##### **Amber Risk 83 – Failure to reduce health inequalities (Row No. 3)**

Thrive Plymouth framework has been adopted by Full Council with links to the Plymouth Plan and Integrated Commissioning Strategies. This provides a good foundation to achieve prevention in all services and improve decision making processes.

##### **Amber Risk 113 – Risk of data loss and/or compromise of connected national infrastructure due to vulnerable infrastructure or attacks via standard hacking methods, phishing emails or malware infection – (Row No. 5)**

An annual IT Health Check is carried out as well as regular vulnerability scans. IT infrastructure patching policy is in place - a patch is a piece of software designed to update a computer program or its supporting data, to fix or improve it - this includes fixing security vulnerabilities.

##### **Amber Risk 94 – Risk to vulnerable children, young people and families by not delivering early intervention and prevention – (Row No. 6)**

The Early Intervention and Prevention Strategy has now been superseded by The Children & Young People Commissioning Plan which will provide an integrated approach to early help and specialist support for children at risk of poor outcomes.

##### **Amber Risk 109 – Failure to secure adequate market interest and funding in the South Yard Marine Industries Production (Row No. 8)**

The Council has the flexibility in the legal agreement to slow down the legal transfer of the final phases of South Yard to enable sufficient income to be generated to pay for running costs.

##### **Amber Risk 46 – The Council not meeting its obligations to keep citizen data secure (Row No. 9)**

Follow up IT security staff awareness eLearning training is to be rolled out in March 2016. There is effective security incident management and reporting in place and escalation procedures to the Management of Information Security Forum (MISF) and the Senior Information Risk Owner (SIRO).

**Amber Risk 93 — Risk of failing to deliver the range of housing to meet Plymouth’s need (Row No. 11)**

The Plan for Homes has been refreshed to cover 2016 - 2021 with 20 initiatives to further support housing delivery. These include a more direct intervention approach to housing delivery by establishing a fund for acquiring sites, tackling stalled and lapsed sites and creating a new housing company to directly deliver new homes.

**4.2 Risk Score Reduced**

**Amber Risk 21 – Being unable to deliver Council services within the envelope of the resources provided in 2016/17 (formerly Transformation) (decreased from 20 to 16) – (Row No. 2)**

The Transformation Programme is improving efficiency and reducing costs whilst still delivering benefits to customers. Monthly finance reporting to Cabinet members and scrutiny board is carried out. Budget is presented to senior officers and members in a revised format to deliver greater transparency and challenge.

**Amber Risk 108 — Failure to secure funding for the Plymouth History Centre (decreased from 16 to 12) - (Row No. 7)**

£4.2 million funding from the Arts Council has been awarded in addition to £12.8m from the Heritage Lottery Fund and £8m from Plymouth City Council. Additional funding streams are being sought.

**Green Risk 51 — Risk of not delivering sustained and accelerated economic and population growth (decreased from 15 to 9) – (Row No. 12)**

A series of measures have been put in place such as 1000 Club, Building Plymouth, Urban Enterprise Programme and Manufacturers Challenge. A £2.5m social enterprise investment fund has been allocated for business support. Regeneration projects include the City Deal and Plymouth Science Park – phase 5.

**4.3 Deleted Risks**

**Red Risk 95 – Transformation impact on Plymouth City Council business – (Row No. 13)**

Risk has been merged with risk number 21 shown at paragraph 4.2 above (row 2).

**Red Risk 49 – Future of Civic Centre and Council House following listed status as not currently fit for purpose – (Row No. 14)**

Contracts have now been exchanged with Urban Splash so risk can be removed.

**Amber Risk 110 – Funding for South Yard Marine Industries Production Campus – (Row No. 15)**

This risk has been merged with Risk No. 109 shown at paragraph 4.1 above (row 8).

**5.0 Summary and Conclusion**

- 5.1** The Council’s success in dealing with the risks that it faces can have a major impact on the achievement of key promises, objectives and ultimately therefore, the level of service to the community.

- 5.2** The movement in risk scores and the consequent changes to the Council's overall strategic risk profile outlined in this latest review provides good evidence of the dynamic nature of the Strategic Risk and Opportunity Register and the maturity of the Council's approach to the identification and management of strategic risk.
- 5.3** The inclusion of risk management considerations is a key feature in the Council's key corporate processes featuring in the Corporate Plan preparation, Change Plans, Budget Planning and Monitoring and Performance Management.
- 5.4** Managing Risk is also one of the five core management competencies in the Council's Competency Framework ensuring that the success of managers in managing risk in their area of responsibility is assessed as part of their annual performance appraisal.
- 5.5** This embedded approach acts as an effective early warning system for the recording, monitoring and management of risks that threaten the delivery of the Council's strategic objectives and plans.
- 5.6** The next formal review of the Strategic Risk and Opportunity Register will take place in August 2016.

PLYMOUTH CITY COUNCIL STRATEGIC RISK REGISTER TWENTY TWO - FEB 2016

ROW NO	RISK REF	DESCRIPTION OF RISK (Risk description should include cause / risk event / consequence)	CRITICAL SUCCESS FACTOR (must be vital to the Council's success / benefit the Council as a whole / Be synonymous with a high-level goal / link directly to the corporate strategy)	CURRENT EXISTING MITIGATION	RESIDUAL RISK RATING			CURRENT RESIDUAL RISK RATING			RAG RATING / CHANGE IN RISK RATING	ACTION PLAN / FUTURE MITIGATION	HOW WILL PROGRESS BE MEASURED (Guidance shown in tab C)	TARGET DATES (or review date if target unknown)	RESPONSIBLE OFFICER(S)	DIRECTOR / ASSISTANT DIRECTOR	RISK CHAMPION
					*P	*I	20	*P	*I	20							
1	95	Inability to meet the longer term target budgets given the size of the resource reductions and increasing cost pressures as detailed in our <b>Medium Term Financial Strategy 2016-2020</b> . This would result in a negative impact on budgets, loss of reputation, negative impact on front line services and a negative VFM opinion from external audit	<i>Pioneering</i> - A Council that uses resources wisely / The Medium Term Financial Strategy (MTFS) for the financial years 2016/17 to 2019/20 sets out how we will finance the priorities for the Council, having regard to the Plymouth Plan, the Corporate Plan and the uncertainties around a number of issues including the level of reductions in future funding from Central Government and the consequent changes required of the Council	The Council is adopting a balanced 2016/17 revenue (which includes a drawdown from existing reserves and provisions) and capital budget and the development of an MTFS to 2019/20.  PCC Finance and People Directorate SMT are working in collaboration with the NHS Success Regime to ensure the Plymouth Integrated Fund is not compromised.  Finance are working with CMT to improve the production of the budget and MTFS reviewing what went well and what could be improved.  CMT and Cabinet will continue to receive monthly monitoring reports identifying risks and pressures leading to the consideration of proposals for corrective action.	*P 4	*I 5	20	*P 4	*I 5	20	R	Delivering the MTFS will be part of the CMT/ SMT development programme.  Work with NHS colleagues on developing Plymouth-wide savings to benefit PCC and CCG  Work with LGA and DCLG on understanding 100% retention of business rates and the implications for the MTFS.  Work with Arlingclose (our treasury management advisors) to fully explore the possible treasury management impact of Britain's exit from the European Union.	Raised awareness and ownership by SMT  Savings have been identified and developed  Receive briefing notes from LGA and DCLG  Develop countermeasures and alternative investments	Begins Feb 2016 and ongoing Begins Jan 2016 and ongoing Ongoing  Review June 2016	David Northey	Andrew Hardingham	Aaron Perrin
2	21	<b>Being unable to deliver Council services within the envelope of the resources provided in 2016/17</b> leading to negative impact on budgets, loss of reputation, negative impact on front line services and a negative opinion from external audit.	<i>Pioneering</i> - A Council that uses resources wisely / The Council provides and enables brilliant services that strive to exceed customer expectations  The Council is embarking on a large Transformation Programme. The scale of change and the benefit realisation required to achieve the Council's plan as a Co-operative Council and address funding/income shortfall by 2016/17 carries significant risk on its capability to achieve this result.	Progress reported within monthly finance reporting to cabinet members and scrutiny board.  Improve Member engagement in Budget process and earlier in MTFP setting process buy having regular Member briefings.  Budget presented to senior officers and members in a different format, delivering greater transparency and challenge.  Higher profile of Council's finances at both CMT and cabinet.  Budget sessions at DMTs.	*P 4	*I 5	20	*P 4	*I 4	16	A	Cross-departmental strategy on grant maximisation, with the policy being finalised by March 2016.  Treasury Management diversification of portfolio to increase income.  Working with Local Government Partnership to change regional contract and procurement opportunities to achieve cost efficiencies.  Continue the Transformation Programme which is improving efficiency and reducing costs whilst still delivering benefits to customer. Significant savings are focused in four key programmes:- Growth, Assets & Municipal Enterprise (GAME) Integrated Health & Wellbeing (IHWB) Customer Service Transformation (CST) People & Organisational Development (POD)	Increase in successful bids  Better return on the investment portfolio  Reduced contract costs  Improved efficiency and reduced costs	October 2016  March 2017 (With quarterly reviews)  March 2017 (With quarterly reviews) Ongoing	David Northey	Andrew Hardingham	Aaron Perrin
3	83	<b>Failure to reduce Health Inequalities</b> will mean our poorest residents continue to live shorter lives as well as more years in ill health. This risk impacts the city's growth ambitions as well as the sustainability of the health and social care system through increased demands on welfare care, support and health services. Further risk of failing to achieve the city's vision where "an outstanding quality of life is enjoyed by everyone" and the key Caring Plymouth objective to reduce health and social inequalities.	<i>Caring</i> - We will prioritise prevention / We will help people take control of their lives and communities <i>Confident</i> - Citizens enjoy living and working in Plymouth.  Reducing inequalities particularly in health and between communities is a long term priority for the City Council to support the delivery of the vision for Plymouth where an outstanding quality of life is enjoyed by everyone	Thrive Plymouth framework adopted by full council and reading across in Plymouth Plan and Integrated Commissioning Strategies provides good foundation to achieve prevention in all services and decision making processes. Work with major employers in 2014/15 and in 2015/16 seeks to embed an understanding and focus to reduce health inequalities reaching thousands of employees and children and young people via schools.	*P 4	*I 4	16	*P 4	*I 4	16	A	Persistent action across the Council required at many levels to tackle inequalities  Continue to work with employers and schools to influence healthier lifestyles	There is currently a life expectancy gap of 12.2 years between neighbourhoods in Plymouth. Closing that gap is crucial to the city thriving and an outstanding quality of life being enjoyed by everyone.	Ongoing	Sarah Lees	Kelechi Nnoaham	Katrina Houghton
4	84	<b>Risk of increased poverty/hardship as a result of the impact of Welfare Reform</b> on our customers including eg increase in in-work housing benefit claimants and reductions in Emergency & Welfare Fund. Also risk of stress to staff dealing with customers affected by cuts	<i>Caring</i> - People are treated with dignity and respect <i>Confident</i> - Government and other agencies have confidence in the Council and partners; Plymouth's voice matters  The government's welfare reform agenda continues to present significant risk, placing additional pressures on customers including the most vulnerable, and requiring significant partnership work with the voluntary sector to provide face to face advice to address this	Welfare Reform Framework adopted.  Impact of welfare reform continues to be monitored and discretionary welfare schemes reviewed.  Plans implemented and strategies in place to create jobs.  Support continues to Credit Unions	*P 4	*I 4	16	*P 4	*I 4	16	A	Officers working group across depts. to measure impact, consider response and minimise negative impact.  Support & advice provided to people most affected by changes.  Run local Council Tax Support Scheme.  Considering future of Emergency & Welfare Fund (EWF).  Support for implementation of Universal Credit.  Create jobs and minimise poverty.  Reduce use of costly loans.	Welfare Response Group performance managing implementation of action plan.  Contract monitoring of commissioned Advice Services.  Revise Emergency Welfare Fund.  Agree local support agreement for Universal Credit.	April 16 (Annual review)  Ongoing  April 16  April 16	Pete Aley  Rachel Silcock  Laura Griffiths  Emma Rose	Peter Aley	Julie Reed

PLYMOUTH CITY COUNCIL STRATEGIC RISK REGISTER TWENTY TWO - FEB 2016

ROW NO	RISK REF	DESCRIPTION OF RISK (Risk description should include cause / risk event / consequence)	CRITICAL SUCCESS FACTOR (must be vital to the Council's success / benefit the Council as a whole / Be synonymous with a high-level goal / link directly to the corporate strategy)	CURRENT EXISTING MITIGATION	RESIDUAL RISK RATING			CURRENT RESIDUAL RISK RATING			RAG RATING / CHANGE IN RISK RATING	ACTION PLAN / FUTURE MITIGATION	HOW WILL PROGRESS BE MEASURED (Guidance shown in tab C)	TARGET DATES (or review date if target unknown)	RESPONSIBLE OFFICER(S)	DIRECTOR / ASSISTANT DIRECTOR	RISK CHAMPION
					*P	*I	16	*P	*I	16							
5	113	<b>Risk of data loss and/or compromise of connected national infrastructure due to vulnerable infrastructure</b> or attacks via standard hacking methods, phishing emails or malware infection.	<i>Pioneering</i> - A council that uses resources wisely  An information security incident occurs when there is a compromise, potential compromise or unauthorised use of Plymouth City Council data or physical assets. Poor education and training, misuse, and breach of security controls of information systems may result in data and information being put at risk, may be used to misrepresent the Council and result in the ineffective use of Council resources	Annual IT Health Check  Regular vulnerability scans carried out  IT Infrastructure patching policy in place  Pro-active protective monitoring by Babcock  External compliance assessment	4	4	16	4	4	16	■ A	Implement compliance requirements into Delt business as usual  Ensure vulnerability scans are conducted and reported to PCC	Transformation programme monitoring  Build into service level reporting	March 2016  March 2016	John Finch	Andrew Hardingham	Aaron Perrin
6	94	<b>Risk to vulnerable children, young people and families by not delivering early intervention and prevention</b> and responding as soon as possible to their needs and promote better long term life outcomes.	<i>Caring</i> - We will prioritise prevention / Children, Young People and adults are safe and confident in their communities  Early intervention aims to promote better long term life outcomes for families, and in doing so, also prevent them needing more intensive and higher cost services in the future, such as children's social care or the criminal justice system.	Children & Young People Partnership; Plan for Child Poverty 2016-2019 The Children and Young People's Commissioning Plan which is being overseen by the CYPS Board;	4	4	16	4	4	16	■ A	Children and Young People Action plan Transformation Gateway  Child Poverty Action Plan 2016-2019 aims to provide a renewed focus for where the city's attention and resources should be directed to ensure we have the most impact on our most vulnerable families, who are most likely to be experiencing child poverty	A reduction in offending, re-offending and anti-social behaviour  Improvement in children's school attendance and attainment  Children remaining safe from harm, including a reduction in risk from domestic abuse  Reduction in child poverty  Improved family health and wellbeing	Ongoing	TBA	Alison Botham / Judith Harwood	Julie Reed
7	108	<b>Failure to secure funding for the Plymouth History Centre</b> - Reputational and financial implications if full funding not received to complete the project led by Plymouth City Council, to transform the existing museum and art gallery on North Hill into the Plymouth History Centre.	<i>Pioneering</i> - Plymouth's cultural offer provides value to the city <i>Confident</i> - Plymouth's brand is clear, well known and understood globally / Our employees are ambassadors for the city and the Council and they are proud of the difference we make  The vision to build a unique visitor attraction, three times the size of the existing site, which will open as the flagship building for the Mayflower 400 commemorations in 2020	Programme Board established.  Expertise in place.  £4m Arts Council funding approved	4	4	16	3	4	12	➔ A	Additional funding streams being sought.  Programme for Arts Council bidding being put in place with the Culture Board	When appropriate funding is in place	Spring 2016	Paul Brookes	David Draffan	Gill Peele
8	109	<b>Failure to secure adequate market interest and funding in the South Yard Marine Industries Production Campus (MIPC) site</b> , slows or prevents site occupation such that economic growth and funding projections are not achieved and/or the Council has to provide financial revenue support to run and maintain the site	<i>Growing</i> - A strong economy creating a range of job opportunities / Plymouth is an attractive place for investment <i>Confident</i> - Plymouth's brand is clear, well known and understood globally / Our employees are ambassadors for the city and the Council and they are proud of the difference we make  The city's Local Economic Strategy seeks to concentrate efforts on the things that will generate the greatest returns to our economy. It recognises the opportunity presented by Mayflower 2020 as a major milestone in the reinvention of Plymouth as Britain's Ocean City and as a catalyst for business growth in marine and related industries, the visitor economy, the culture of the city in its broadest sense, and raising the city's profile and reputation in global markets.	The council has the flexibility in its legal agreement with the MOD to slow down the legal transfer of the final phases of South Yard to enable sufficient income to be generated to pay for running costs.	3	4	12	3	4	12	■ A	Secure sufficient funding to develop Phase 1 and 2 at South Yard.  Continue to explore ways of reducing site running costs.	When external grant funding is secured to assist with development.  Number of businesses landing in South Yard.	Ongoing	Patrick Hartop	David Draffan	Gill Peele
9	46	<b>The Council not meeting its obligations to keep citizen data secure</b> , or provide and display information in line with statutory requirements. The consequence can be a financial penalty and/or reputational damage resulting in loss of trust in the Council which will affect the ability of the Council to work efficiently and effectively with the public, contractors or partner organisations (formerly Information Governance)	<i>Pioneering</i> - A council that uses resources wisely  Information is the raw material used by the Council to plan for and deliver all its services and reducing the risk that describes the availability and quality of information for staff, decision makers and citizen use, as well as the protection of sensitive information is a continuing process.	Staff awareness training has been developed.  Effective security incident reporting and management.  Escalation of breaches to MISF and SIRO	3	4	12	3	4	12	■ A	Roll out staff awareness training to all staff.  Implement greater reporting consistency within directorates.  Implement improved incident analysis within the Service Desk  Ensure full corporate attendance for MISF  Improved contract management with partners	Reports from HR training detailing completion statistics  Detailed breach reports  Reporting of non-attendance to directors  Detailed breach reports and escalation at contract management meetings	March 2016  June 2016  February 2016  May 2016	John Finch	Andrew Hardingham	Aaron Perrin

PLYMOUTH CITY COUNCIL STRATEGIC RISK REGISTER TWENTY TWO - FEB 2016

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					*P	*I		*P	*I								
					Aug-15			Feb-16									
10	107	<b>Failure to jointly procure the Highway maintenance contract</b> - failure to jointly procure between Devon and Somerset County Councils and Plymouth City Council leading to higher costs and damage to reputation	<i>Pioneering</i> - A council that uses resources wisely  The core contract period of the existing Highways Services Contract with Amey ends on 30 November 2015. There is a need to have in place a new, transitory mechanism for the delivery of highways services from 01/04/17	Fall back options are currently being investigated which will mitigate the major risks, these are:-  Option 1 - The procurement process allows us to enter into negotiations with the bidding companies for a Plymouth only procurement.  Option 2 - Should all external procurement fail, Highways maintenance could be bought back in-house and a future collaborative venture such as TECKAL Shared Services will be investigated.	4	3	12	4	3	12	A	External Procurement - A range of major companies are currently engaged in bidding for Plymouth Highways Procurement both stand alone or the preferred option in partnership with Devon and Somerset. This reduces the likelihood of a failure to procure.  In-house Option - The processes and mobilisation period will be planned so that they will accommodate/facilitate not only the external option but also the fall back in-house option.	There will be a procurement plan with milestones reviewed by the Project Board which comprises of Members and Senior Officers. In addition, critical milestones will be 'Gated' as part of the project management process and externally reviewed.	BID Award - Sept 16  Mobilisation - Oct 16  New contract - Mar 17	Adrian Trim	Simon Dale	Gill Peele
11	93	<b>Risk of failing to deliver the range of housing to meet Plymouth's need</b> via The Plan for Homes and not realise the ambition to deliver 5,000 new homes over the next 5 years	<i>Growing</i> - More decent homes to support the increasing population  The Plan for Homes was launched in November 2013 to speed up housing supply by delivering a range and mix of well-designed greener homes to meet the city's needs	Plan for Homes regularly reviewed. Plan for Homes refresh 2016-2021 completed and going to Cabinet for approval.  Review of partnerships and partners to manage delivery and ensure capability.	3	4	12	3	4	12	A	Plan for Homes refresh 2016 to 2021 with 20 initiatives to further support housing delivery. This includes a more direct intervention approach to housing delivery for establishing a fund for acquiring sites; tackling stalled and lapsed sites; creating a new housing company directly to deliver new homes.  Ensuring the modernisation of Government funding opportunities to support new homes e.g. Starter Homes and Care and Support funding.	Regular reports to Housing Needs Working Group and Portfolio Holders.  Establishment of Cabinet Advisory group on Planning.  Housing and Infrastructure to remove barriers to delivery, improve key partner engagement to support delivery of new homes against commitment to deliver 5,000 new homes over 5 years.	Annual delivery monitoring year end March 2016 and on going	Paul Barnard	Paul Barnard	Gill Peele
12	51	<b>Risk of not delivering sustained and accelerated economic and population growth</b> in line with the Council's Corporate Plan and vision for the City which could lead to higher unemployment and lack of the right labour skills to match the needs of businesses.	<i>Growing</i> - A strong economy creating a range of job opportunities / Plymouth is an attractive place for investment / A top performing education system from early years to continuous learning opportunities <i>Confident</i> - Citizens enjoy living and working in Plymouth  The city's Local Economic Strategy seeks to concentrate efforts on the things that will generate the greatest returns to our economy. It recognises the opportunity presented by Mayflower 2020 as a major milestone in the reinvention of Plymouth as Britain's Ocean City and as a catalyst for business growth in marine and related industries, the visitor economy, the culture of the city in its broadest sense, and raising the city's profile and reputation in global markets.	We have put in place a series of economic development measures. These include for People - 1000 Club, Building Plymouth, Urban Enterprise Programme, Manufacturers Challenge.  Place regeneration we have undertaken direct development (Hearder Court) signed a City Deal, embarked on Plymouth Science Park phase 5.  Business Support we have set out a 2.5 million social enterprise investment fund, supported the Gain Growth Fund, attended business trade shows (MIPIM San Diego, Mets Amsterdam) and reworked the inward investment guide/website.	3	5	15	3	3	9	G	Future plans include:  Place - development of the History Centre and Quality Hotel site. Exploring development of Colin Campbell Court. Further direct development of South Yard.  Business Support - development of the marine/blue tech sector, co-ordinating inward investment, leveraging off the LEP to improve connectivity and exploiting the Mayflower to reposition the city at the centre of celebrations.	Monitor:-  Weekly wage rates, Gross Value Added per hour worked.  Job Seeker Allowance claimants.  Youth Job Seeker Allowance claimants	Ongoing	Paul Barnard	Paul Barnard	Gill Peele
13	95	<b>Transformation impact on Plymouth City Council Business</b> - PCC is embarking on a large Transformation Programme. The scale of change and the benefit realisation required to achieve the council's plan as a Co-operative Council and address funding income shortfall by 2016/17 carries significant risk on the capability to achieve this result.  REMOVE AS COVERED IN RISK 21			4	5	20			0						Les Allen	Helen Cocks
14	49	Future of <b>Civic Centre</b> and Council House following listed status as not currently fit for purpose.  DELETE - NO LONGER A RISK			4	5	20			0						David Draffan / David James	Gill Peele
15	110	Failure to secure adequate <b>funding for the South Yard Marine Industries Production Campus</b> (MIPC) site which slows or prevents site development such that economic growth and income projections are not achieved and the Council has to provide additional financial support to develop and/or run the site  REMOVE - MERGED WITH 109			3	4	12			0						David Draffan	Gill Peele

PLYMOUTH CITY COUNCIL STRATEGIC RISK REGISTER TWENTY TWO - FEB 2016

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					Aug-15	Aug-15	Aug-15	Feb-16	Feb-16	Feb-16							
16	111	Governments Productivity Plan Section 9 'Planning Freedoms and more houses to buy' proposes <b>Planning Reforms</b> which would potentially have a huge impact on the Council's Planning Service and the Plymouth Plan  TRANSFER TO OPERATIONAL			4	4	16			0	A				Paul May	Gill Peele	
17	92	Deterioration of the condition of the City's <b>Highway Network</b> (carriageway and footways)  TRANSFER TO OPERATIONAL			4	4	16			0					Adrian Trim	Gill Peele	
18	72	Significant pressure on <b>Adult Social Care budget</b>  TRANSFER TO OPERATIONAL			4	4	16			0					Craig McArdle	Maddie Halifax	
19	106	The Deprivation of Liberty Safeguards (DOLS) were introduced to supplement the Mental Capacity Act (MCA), to protect people without capacity who are outside the procedural safeguards of the Mental Health Act to decide where to live. Judgement handed down by the Supreme Court in March 2014 has led to an increase in the number of people in England and Wales who are considered to be deprived of their liberty for the purposes of receiving care and treatment. There is a risk of litigation from patients and their families seeking <b>Judicial Review</b> in relation to unlawful detention.			4	4	16			0					Craig McArdle	Maddie Halifax	
20	105	The Council's potentially impaired ability to contact and mobilise appropriate operational staff out of hours to respond to a major emergency. Additional risk of non-compliance with statutory duty of the <b>Civil Contingencies Act 2004</b>  TRANSFER TO OPERATIONAL			4	4	16			0					Scott Senior / Jamie Whitford-Robson	Katrina Houghton	
21	28	Increase in the number of <b>looked after children</b> and those subject to a Child Protection Plan leading to cost pressures on independent placements, staffing and resources  TRANSFER TO OPERATIONAL			4	4	16			0					Alison Botham	Maddie Halifax	
22	99	Potential risks resulting from the fragmented clinical and service <b>governance arrangements between ODPH, CCG and NHSE Area Team.</b>  TRANSFER TO OPERATIONAL			3	5	15			0					Kelechi Nnoaham	Katrina Houghton	
23	67	Working with partners in the prevention of <b>Violent Extremism.</b>  TRANSFER TO OPERATIONAL			3	5	15			0					Peter Aley	Julie Reed	
24	24	Ensuring processes are in place to <b>protect staff from violent incidents</b> whilst carrying out their duties.  TRANSFER TO OPERATIONAL			3	5	15			0					Dawn Aunger	Alison Mills	
25	59	Financial risk associated with investigation and clean up of <b>contaminated land</b>  TRANSFER TO OPERATIONAL			3	5	15			0					Robin Carton	Katrina Houghton	
26	76	Risk of not getting funding to progress development of <b>Gypsy Sites.</b>  TRANSFER TO OPERATIONAL			4	3	12			0					Matt Garrett	Maddie Halifax	



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					Aug-15	Aug-15	Aug-15	Feb-16	Feb-16	Feb-16							
27	68	Failure to reach <b>recycling targets</b> and divert waste from landfill  TRANSFER TO OPERATIONAL			3	4	12			0					Simon Dale	Gill Peele	
28	88	Failure to ensure that the resources and capacity to deliver <b>Major Capital Transport Schemes</b> is in place to deliver effectively  TRANSFER TO OPERATIONAL			3	4	12			0					Philip Heseltine	Gill Peele	
29	96	<b>Implementation of the Care Bill and the Dilnot cap on care costs</b> - financial risk associated with additional assessment activity, managing care accounts and earlier funding of care costs  TRANSFER TO OPERATIONAL			3	4	12			0					Craig McArdle	Maddie Halifax	
30	73	Ineffective <b>Employee Relations</b> - failure to engage effectively with trade unions leading to disputes and disharmony  TRANSFER TO OPERATIONAL			3	4	12			0					Dawn Aunger	Alison Mills	
31	30	<b>ICT Resilience</b> - Ensuring there is adequate disaster recovery in place to deal with the unavailability of ICT.  TRANSFER TO OPERATIONAL			2	5	10			0					James Taylor	Aaron Perrin	
32	82	Potential legislative non-compliance of <b>PCC buildings</b> due to fragmented ownership and responsibility  TRANSFER TO OPERATIONAL			2	5	10			0					Chris Trevitt	Aaron Perrin	
33	08	Ensuring the Council has a robust <b>Business continuity</b> planning strategy in place to facilitate resumption of normal business activities should a serious incident occur  TRANSFER TO OPERATIONAL			2	5	10			0					Jamie Whitford-Robson	Katrina Houghton	
34	98	Risk of suspension of access to key public health data due to organisational non compliance with the <b>Information Governance Toolkit</b> for Department of Health e.g. access to Health & Social Care Information Centre data.  TRANSFER TO OPERATIONAL			2	5	10			0					Kelechi Nnoaham	Katrina Houghton / John Finch	
35	60	Negative impact on Revenue budget of <b>Treasury Management</b> activity (formerly Economic downturn affecting treasury management)  TRANSFER TO OPERATIONAL			3	3	9			0					Andrew Hardingham	Aaron Perrin	
36	112	<b>Holiday pay and overtime</b> - Recent employment case law changes has resulted in some forms of 'non-guaranteed' overtime pay and commission based payments being required to be included in employees holiday pay.  TRANSFER TO OPERATIONAL			3	3	9			0					Dawn Aunger	Alison Mills	
37	100	<b>Transformation of Youth Service.</b>  TRANSFER TO OPERATIONAL			2	4	8			0					John Miller	Maddie Halifax	

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**Risk Analysis & Scoring**

Once risks have been identified they need to be assessed systematically and accurately. The process requires managers to assess the level of risk by considering the probability of an event occurring - 'likelihood' and the potential outcome of the consequences should such an event occur - 'impact'. Managers will assess each element of the judgement and determine the score. The tables below give the scores and indicative definitions for each element of the risk ranking process:-

Score	Likelihood	Threat / Risk
5	Almost Certain (80-100%)	Is expected to occur in most circumstances. Will undoubtedly happen, possibly frequently e.g. Annually or more frequently. Imminent/near miss.
4	Likely (50-80%)	Will probably occur in many circumstances. Will probably happen, but not a persistent issue e.g. Once in 3 years. Has happened in the past.
3	Possible (25-50%)	Could occur in certain circumstances. May happen occasionally, e.g. Once in 10 years. Has happened elsewhere.
2	Unlikely (10-25%)	May occur only in exceptional circumstances. Not expected to happen, but is possible e.g. Once in 25 years. Not known in this activity.
1	Rare (0-10%)	Is never likely to occur. Very unlikely this will ever happen e.g. Once in 100 years.
Score	Impact	Threat / Risk
5	Catastrophic Risk	Risks which can have a catastrophic effect on the operation of the Council or service. This may result in critical financial loss, severe service disruption or a severe impact on the public. Examples:- Unable to function without aid of Government or other external agency; Inability to fulfil obligations; Medium - long term damage to service capability; Severe financial loss - supplementary estimate needed which will have a catastrophic impact on the Council's financial plan and resources are unlikely to be available; Death; Adverse national publicity - highly damaging, severe loss of public confidence; Significant public interest; Litigation certain and difficult to defend; Breaches of law punishable by imprisonment; Very significant exposure of public funds with funding being managed across organisations and complex reporting; Total project budget in excess of £500,000.
4	Major Risk	Risks which can have a major effect on the operation of the Council or service. This may result in major financial loss, major service disruption or a significant impact on the public. Examples:- Significant impact on service objectives; Short - medium term impairment to service capability; Major financial loss - supplementary estimate needed which will have a major impact on the Council's financial plan; Extensive injuries, major permanent harm, long term sick; Major adverse local publicity, major loss of confidence; Litigation likely and may be difficult to defend; Breaches of law punishable by fines or possible imprisonment; Relatively large budget £250k - £500k.
3	Moderate Risk	Risks which have a noticeable effect on the services provided. Each one will cause a degree of disruption to service provision and impinge on the budget. Examples:- Service objectives partially achievable; Short term disruption to service capability; Significant financial loss - supplementary estimate needed which will have an impact on the Council's financial plan; Medical treatment required, semi-permanent harm up to 1 year; Some adverse publicity, needs careful public relations; High potential for complaint, litigation possible; Breaches of law punishable by fines only; Budget of up to £250k.
2	Minor Risk	Risks where the consequences will not be severe and any associated losses will be minor. As individual occurrences they will have a negligible effect on service provision. However, if action is not taken, then such risks may have a more significant cumulative effect. Examples:- Minor impact on service objectives; No significant disruption to service capability; Moderate financial loss - can be accommodated at HOS level; First aid treatment, non-permanent harm up to 1 month; Some public embarrassment, no damage to reputation; May result in complaints/litigation; Breaches of regulations/standards; Budget within delegation.

1	Insignificant Risk	<p>Risks where the consequences will not be severe and any associated losses will be relatively small. As individual occurrences they will have a negligible effect on service provision. However, if action is not taken, then such risks may have a more significant cumulative effect. Examples:-</p> <ul style="list-style-type: none"><li>Minimal impact, no service disruption;</li><li>Negligible impact on service capability;</li><li>Minimal loss - can be accommodated at SAC level;</li><li>No obvious harm/injury;</li><li>Unlikely to cause any adverse publicity, internal only;</li><li>Breaches of local procedures/standards;</li><li>Budget within delegation and relatively small or within operational costs.</li></ul>
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# ICO AUDIT

Audit Committee Report March 2016



## Introduction

The ICO was invited to conduct a data protection audit by the Council. The audit took place in spring 2014. The audit covered three main areas:

- Records management (manual and electronic)
  - The process in place for managing both manual and electronic records containing personal data.
- Training and awareness
  - The provision and monitoring of staff data protection training.
- Subject Access Requests
  - The procedures in operation for recognising and responding to individuals' requests for access to their personal data.

## Findings

The ICO audit made 49 recommendations to the Council, and gave a rating of "Limited Assurance" for Records Management and Training and Awareness and a rating of "Reasonable Assurance" for Subject Access Requests. This translates into an overall rating of Limited Assurance.

## Current status

80% of all recommendations are now complete, with the remaining actions almost complete.

The ICO recommended that the Council continues to work towards full implementation of their recommendations. In particular

- The appointment of a corporate Records Manager to take the lead for records management
  - The business case for the role was approved during 2015
  - An advert is currently live for the position
- The delivery of specialised training for specialised roles
  - This was provided in June 2015 by the National Archives.
  - A revised Data Protection course has been released for all staff
  - Councillors have received dedicated briefing sessions
    - Further sessions will take place after the election

In addition there was an essential requirement to identify all of the council's information assets, and create asset registers with which to manage those assets and all of the risks associated with them.

This work is now underway, and is integral to the Council's information management strategy, which will introduce further improvements in this area for the council.

## Conclusion

On completion of all of the recommendations, which have a target of Q2 2016, the Council will be in a far stronger position than in 2014 with a mature approach to managing all information assets, and full clarity on their location, people that are authorised to use them, and any associated risks.

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**PLYMOUTH CITY COUNCIL**

**Subject:** Internal Audit Plan 2016/17  
**Committee:** Audit Committee  
**Date:** 24 March 2016  
**Cabinet Member:** Councillor Lowry  
**CMT Member:** Lesa Annear (Strategic Director for Transformation & Change)  
**Author:** Robert Hutchins, Head of Devon Audit Partnership  
**Contact details** robert.hutchins@devonaudit.gov.uk T: 01752 306710  
**Ref:** AUD/RH  
**Key Decision:** No  
**Part:** I

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**Purpose of the report:**

This report provides information on the legislative requirement for local authorities to provide an Internal Audit (IA) service in accordance with the Accounts and Audit Regulations and Public Sector Internal Audit Standards; the need for an annual risk-based IA plan to be prepared; and the methodology of identifying the audit needs for the Authority.

The report comments on the delivery of the Council's Internal Audit provision by Devon Audit Partnership (DAP) which is a shared service arrangement between Plymouth City, Devon County and Torbay Councils and which commenced on 1<sup>st</sup> April 2009.

This report comments on IA resources available to carry out the 2016/17 plan, and identifies the work to be carried out analysed between audit support and contribution to Transformation, value added work, core assurance, key financial systems, school's reviews, anti-fraud work, consultancy, corporate governance, grant certification and other chargeable work. The report also contains details of the specific audits to be undertaken.

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**The Brilliant Co-operative Council Corporate Plan 2013/14 - 2016/17:**

The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting high standards of service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.

The delivery of the Internal Audit Plan assists all directorates in delivering outcomes from the Corporate Plan:-

- Pioneering Plymouth – by ensuring that resources are used wisely and that services delivered meet or exceed customer expectations;
- Confident Plymouth - the Government and other agencies have confidence in the Council and partners.

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**Implications for Medium Term Financial Plan and Resource Implications:  
Including finance, human, IT and land**

None.

**Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:**

The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.

**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? No

**Recommendations and Reasons for recommended action:**

It is recommended that:

1. The report be noted
2. The proposed Internal Audit Plan for 2016/17 at Appendix 1 be approved.

**Alternative options considered and rejected:**

None, as failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations 2003, 2006, 2011 and 2015 and the Public Sector Internal Audit Standards.

**Published work / information:**

None

**Background papers:**

None

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	

**Sign off:**

Fin		Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member													
Has the Cabinet Member(s) agreed the contents of the report? Yes / No													





devon **audit** partnership

Internal Audit

# Internal Audit Plan 2016-17

## Plymouth City Council Audit Committee

March 2016

Not Protectively Marked

Page 109

Robert Hutchins  
Head of Audit Partnership



Auditing for achievement

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<b>Devon Audit Partnership</b>	<b>Confidentiality and Disclosure Clause</b>
<p>The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.</p> <p>The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at <a href="mailto:robert.hutchins@devonaudit.gov.uk">robert.hutchins@devonaudit.gov.uk</a> .</p>	<p>This report is protectively marked in accordance with the National Protective Marking Scheme. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation’s disclosure policies.</p> <p>This report is prepared for the organisation’s use. We can take no responsibility to any third party for any reliance they might place upon it.</p>

## Audit Framework

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state: “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.  
From April 2013, organisations in the UK public sector are required to adhere to the Public Sector Internal Audit Standards (the Standards).

The Standards require that the Head of Internal Audit must “establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”. When completing these plans, the Head of Internal Audit should take account of the organisation’s risk management framework. The plan should be adjusted and reviewed, as necessary, in response to changes in the organisation’s business, risk, operations, programs, systems and controls. The plan must take account of the requirement to produce an internal audit opinion and assurance framework.

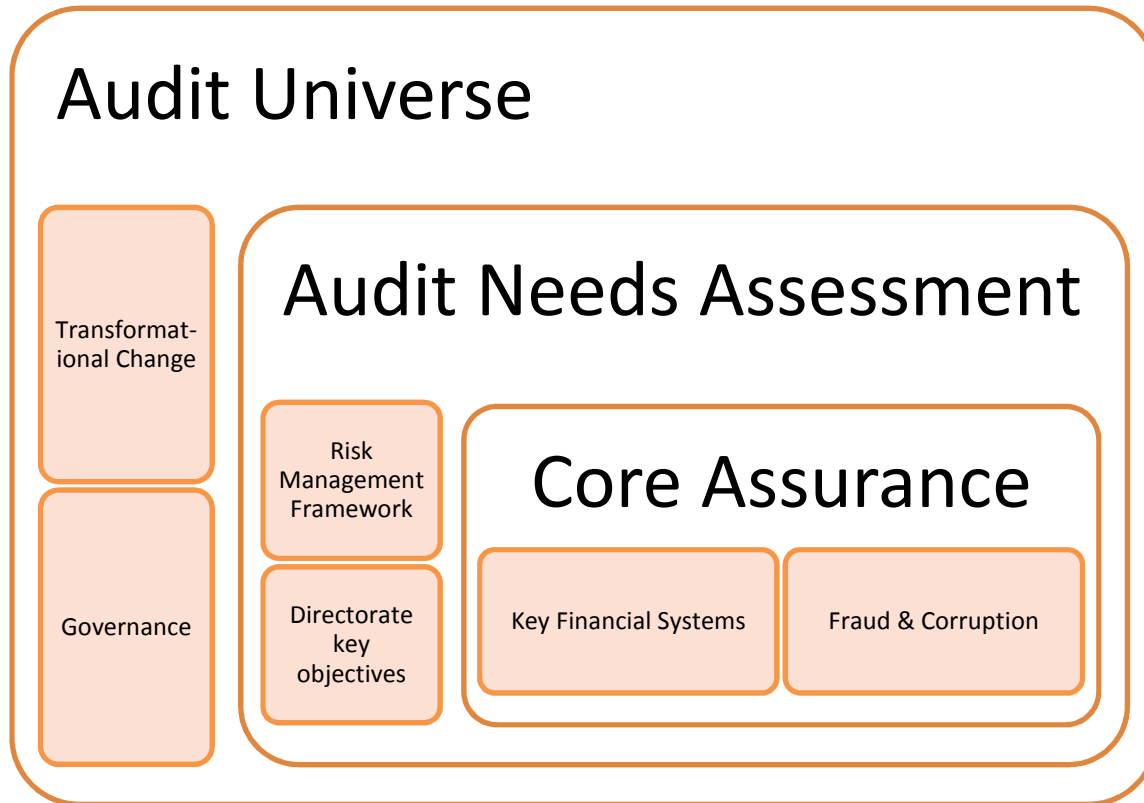
This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements



We will seek opportunity for shared working across member authorities. In shared working Devon Audit Partnership will maximise the effectiveness of operations, sharing learning & best practice, helping each authority develop further to ensure that risk remains suitably managed.

## Audit Needs Assessment

We employ a risk based priority audit planning tool to identify those areas where audit resources can be most usefully targeted. This involves scoring a range of systems, services and functions across the whole Authority, known as the “Audit Universe” using a number of factors/criteria. The final score, or risk factor for each area, together with a priority ranking, then determines an initial schedule of priorities for audit attention.



The resultant Internal Audit Plan for 2016/17 is set out in the high level plan and Appendix 1

The audit plan for 2016/17 plan has been created by:

Consideration of risks identified in the Authority’s strategic and operational risk registers

Review and update of the audit universe

Discussions and liaison with Directors and Senior Officers regarding the risks which threaten the achievement of corporate or service objectives, including changes and / or the introduction of new systems, operations, programs, and corporate initiatives

Taking into account results of previous internal audit reviews

Taking into account Internal Audit’s knowledge and experience of the risks facing the Authority, including factors and systems that are key to successful achievement of the Council’s delivery plans

Requirements to provide a “collaborative audit” approach with the external auditors

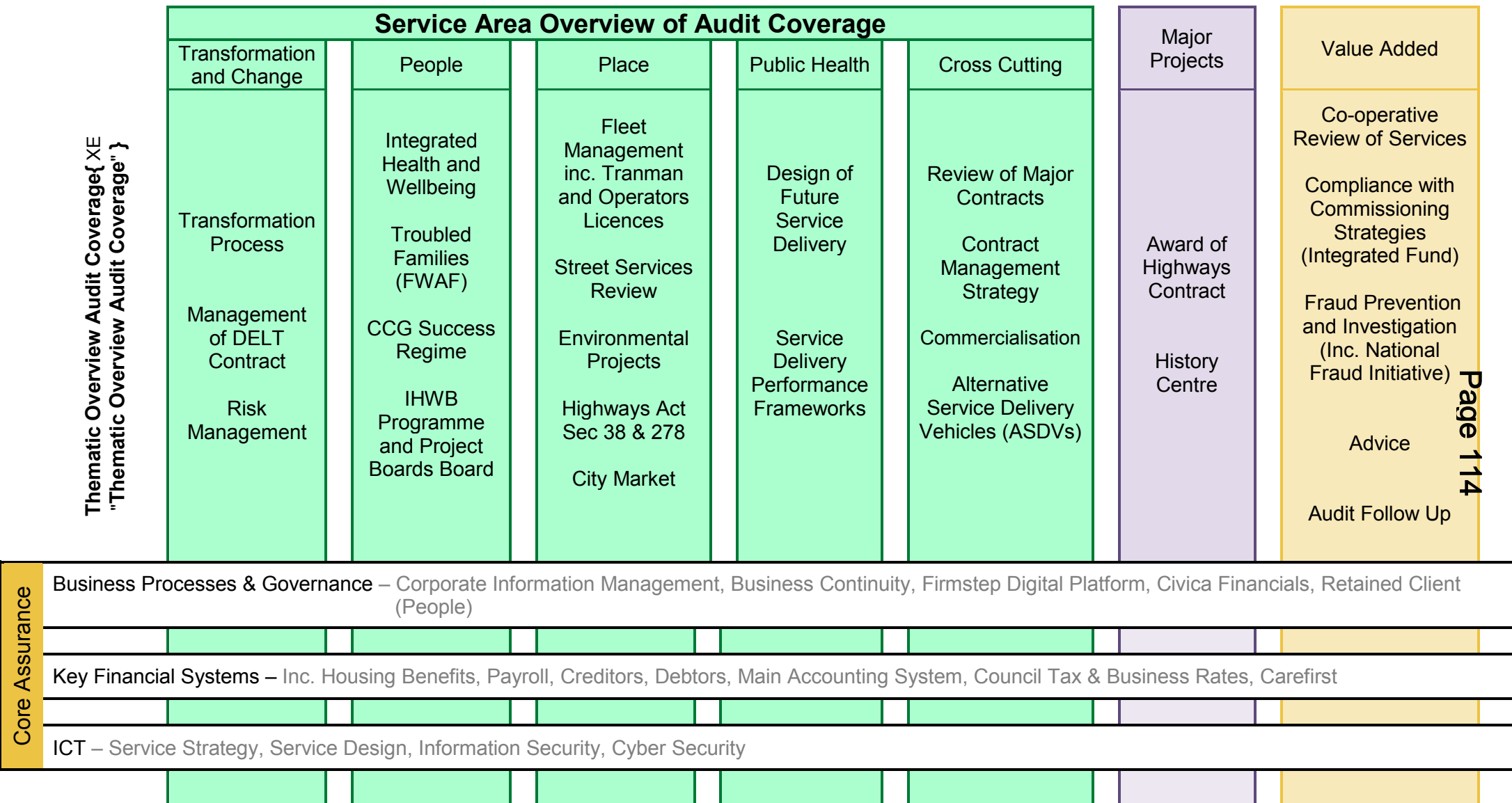
## Consideration of your business objectives

From consideration of the corporate goals and strategic risk registers we have discussed the key challenges and opportunities the Authority is facing with senior management. Our consideration and proposed action is set out below.

Challenges / Opportunities					
<b>Transformational Change</b> <ul style="list-style-type: none"> <li>• delivering more with less</li> <li>• commercialisation</li> <li>• meeting customer needs</li> <li>• alternative service delivery vehicles</li> </ul>	<b>Partnering and Collaboration</b> <ul style="list-style-type: none"> <li>• governance arrangements</li> <li>• Public Sector Network (PSN)</li> <li>• information governance</li> </ul>	<b>Commissioning</b> <ul style="list-style-type: none"> <li>• developing an effective market place</li> <li>• flexible contracting, focused on outputs not inputs</li> <li>• flexible payment structures to reflect reduced budgets</li> </ul>	<b>Information Technology</b> <ul style="list-style-type: none"> <li>• infrastructure resilience</li> <li>• information security</li> <li>• desktop availability</li> <li>• cloud computing</li> <li>• channel shift</li> </ul>	<b>Financial &amp; operational constraint</b> <ul style="list-style-type: none"> <li>• reduction of control framework</li> <li>• loss of experienced staff</li> <li>• income generation</li> </ul>	<b>Compliance &amp; Regulatory</b> <ul style="list-style-type: none"> <li>• key financial systems</li> <li>• Ofsted</li> <li>• Data Protection</li> <li>• Annual governance arrangements</li> </ul>



Internal Audit Consideration					
<b>We will support the Implementation Boards</b> <ul style="list-style-type: none"> <li>• re-engineer internal controls</li> <li>• Audit Partner &amp; Trusted Advisor support through gateway reviews, co-partner working &amp; controls assurance</li> <li>• advise on delivery plans</li> </ul>	<b>Review partner contracts</b> <ul style="list-style-type: none"> <li>• test performance monitoring arrangements</li> <li>• Review governance arrangements</li> </ul>	<b>Advise on procurement processes</b> <ul style="list-style-type: none"> <li>• "best practice" for procurement arrangements</li> <li>• Transparency and consistency of approach</li> <li>• wider "peninsula" approach</li> </ul>	<b>Undertake service management review</b> <ul style="list-style-type: none"> <li>• review information governance</li> <li>• test data security and compliance</li> </ul>	<b>Advise on reduction in control framework</b> <ul style="list-style-type: none"> <li>• use of automated controls</li> <li>• use of continuous auditing approaches</li> <li>• managing residual risks</li> <li>• determine "cost of control"</li> </ul>	<b>Compliance reviews on all material systems</b> <ul style="list-style-type: none"> <li>• follow-up implementation plans on material systems reviews</li> <li>• review performance progress on action plans</li> <li>• contribute to Annual Governance Statement</li> </ul>



The diagram shows the thematic approach to the elements proposed for audit coverage in the coming year as identified through risk assessment and discussion with Senior Management. This overview is supported by the detailed plans, by theme, in appendix 1.

## High Level Audit Plan 2016-17

This table shows a summary of planned audit coverage for 2016/17 totalling 1,180 direct days. It should be borne in mind that, in accordance with the Public Sector Internal Audit Standards, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority and, to this end, it will be regularly reviewed with directorates, and updated as necessary, to ensure it remains valid and appropriate. As a minimum, the plan will be reviewed in six months to ensure it continues to reflect the key risks and priorities of the Council given the significant changes across the public sector. In order to allow greater flexibility, the Internal Audit Plan includes a contingency to allow for unplanned work.

We have set out our plan based on the current organisational structure for the Authority. Detailed terms of reference will be drawn up and agreed with management prior to the start of each assignment – in this way we can ensure that the key risks to the operation or function are considered during our review. The following pages give a brief overview of the focus of proposed audit coverage for the year.

A detailed analysis of proposed audit reviews is provided in Appendix 1.

In addition, audits reviews that have been requested but for which there is currently insufficient resource are detailed in Appendix 2.

Core Activity for Internal Audit Review	Coverage in Days
Transformation and Change inc: - Core assurance Key Financial Systems 170 days - Core assurance Other 90 days	360
People - Includes core assurance Key Financial Systems 60 days	238
Place	120
Crosscutting	100
Public Health	55
Anti-Fraud and Corruption	150
Grant Certification	20
Other Chargeable Activities	137
<b>Total internal audit plan for Plymouth City Council</b>	<b>1180</b>
Schools (estimated)	129

## Service Level Plans – Transformation & Change, Place, People and Public Health

### Transformation & Change

As part of the challenge to reduce its funding gap, the Council is delivering a transformation programme which is seeing a radical change to the way services are provided. The 2016/17 internal audit plan reflects the many programme work streams as they progress through the change pipeline and includes resource to examine, support and challenge areas of the programme during design, development and delivery.

Audit will continue to support and review the Transformation process itself, including process maturity assessment. Audit assignments will be steered by the Portfolio Office. We will contribute to the development of contract management and retained client functions, review the utilisation of risk registers and embeddedness of the risk management framework

Assurance work will be undertaken on areas termed as key financial systems; these process the majority of income and expenditure of the Council, and which have a significant impact on the reliability and accuracy of the annual accounts.

In addition, Internal Audit will review, support and advise on areas that include:

- Information Governance, working with relevant managers and ILOG to review key areas of strategic and operational information management practice,
- Development and roll-out of the new Firmstep digital platform.

With respect to ICT, we will continue to review the management of Delt. We will work, as “trusted advisor and audit partner”, alongside the Transformation programme as new delivery models are designed that involve the implementation of new ICT business systems. We will work with the Council and its business areas to ensure that their objectives are appropriately supported and the value of ICT is fully realised.

### Place

Management have requested our advice, support and assurance as “trusted advisor and audit partner” on areas within Street Services.

Similarly, audit resource will be made available to support the development of a variety of Environmental schemes. We will continue to support the History Centre project and the procurement of a new Highways Term Maintenance Contract, in collaboration with Devon and Somerset County Councils and its mobilisation ahead of implementation in April 2017.

### People

Audit within this area continues to evolve in recognition of the creation of the Integrated Fund (created in partnership with the New Devon CCG), resulting in three core elements within the People Directorate audit plan. Firstly, those audits directly related to the Integrated Fund which includes work related to the commissioning strategies, Governance, Financial Reporting and the CCG Success Regime. Secondly, the audit reviews which are linked to the delivery of services and such as CareFirst reviews, Service Agreement Verification and Income Collection. Thirdly, work to support the ongoing IHWB Transformation Programme and its delivery of robust and suitable solutions along with assurance on implementation and delivery of the key strategies. Audit are working collaboratively with audit South West, the CCG internal auditors, through joint working arrangements covering audit planning, delivery and reporting.

### Public Health

Our work will provide assurance around the design of future service delivery and the performance frameworks used to measure impact and chart progress.

### Value Added

Value Added is integrated into all audits, key focus this year will be on “audit partner” themes supporting service transformation including commercialisation and implementation of commissioning strategies. We will undertake the annual follow up on all audit areas identified as ‘Improvements Required’ or ‘Fundamental Weaknesses’ in 2015/16 supporting implementation of recommendations. The National Fraud Initiative this year will report to the Cabinet Office following change requirements. Proactive fraud work will be carried out in liaison with the Corporate Fraud Team.



# Fraud Prevention and Detection and Internal Audit Governance

## Fraud Prevention and Detection and the National Fraud Initiative

Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. Internal Audit will continue to investigate instances of potential fraud and irregularities referred to it by managers, and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk to fraud. In recognition of the guidance in the Fraud Strategy for Local Government “Fighting Fraud Locally” and the TEICCAF (The European Institute for Combatting Crime and Fraud) publication “Protecting the English Public Purse 2015”. Internal Audit will liaise with the Council’s Corporate Fraud Team to enable resource to be focussed on identifying and preventing fraud before it happens. Nationally these areas include Procurement, Payroll, Blue Badges, Direct Payments.

In the past the Audit Commission has run a national data matching exercise (National Fraud Initiative - NFI) every two years. This has now been taken over by the Cabinet Office and the 2016/17 exercise will commence with the gathering and upload of the required datasets to the Cabinet Office this coming October. The resulting data matches will be received in January/February 2017 and we shall then work with Council departments to ensure that the matches are reviewed and action taken as may be necessary.

## Internal Audit Governance

An element of our work is classified as “other chargeable activities” – this is work that ensures effective and efficient audit services are provided to the Council and the internal audit function continues to meet statutory responsibilities. In some instances this work will result in a direct output (i.e. an audit report) but in other circumstances the output may simply be advice or guidance. Some of the areas that this may cover include:-

- Preparing the internal audit plan and monitoring implementation;
- Preparing and presenting monitoring reports to Senior Management and the Audit Committee;
- Assistance with the Annual Governance Statement;
- Liaison with other inspection bodies (e.g. BDO, Audit South West);
- Corporate Governance - Over recent years Internal Audit has become increasingly involved in several corporate governance and strategic issues, and this involvement is anticipated to continue during 2016/17
- On-going development within the Partnership to realise greater efficiencies in the future.

## Partnership working with other auditors

We will continue to work towards the development of effective partnership working arrangements between ourselves and other audit agencies where appropriate and beneficial. We are working closely with colleagues from Audit South West, the internal auditors for Health, as the Council’s integration with Health progresses. Joint working arrangements have been agreed through both PCC and CCG Audit Committees supported by detailed arrangements around audit planning, delivery and reporting in a shared arrangement. We are further developing relationships with South West Audit Partnership with joint working arrangements for the Police services.

We shall continue to work with External Audit colleagues. Grant Thornton has been replaced by BDO from April 2016 and Devon Audit Partnership will continue to build a relationship with them to understand their requirements and to provide information that they will require. We will look to set up regular liaison arrangements to maximise the benefits of close working. We will participate in a range of internal audit networks, both locally and nationally, which provide for a beneficial exchange of information and practices. This often improves the effectiveness and efficiency of the audit process, through avoidance of instances of “re-inventing the wheel” in new areas of work which have been covered in other authorities.

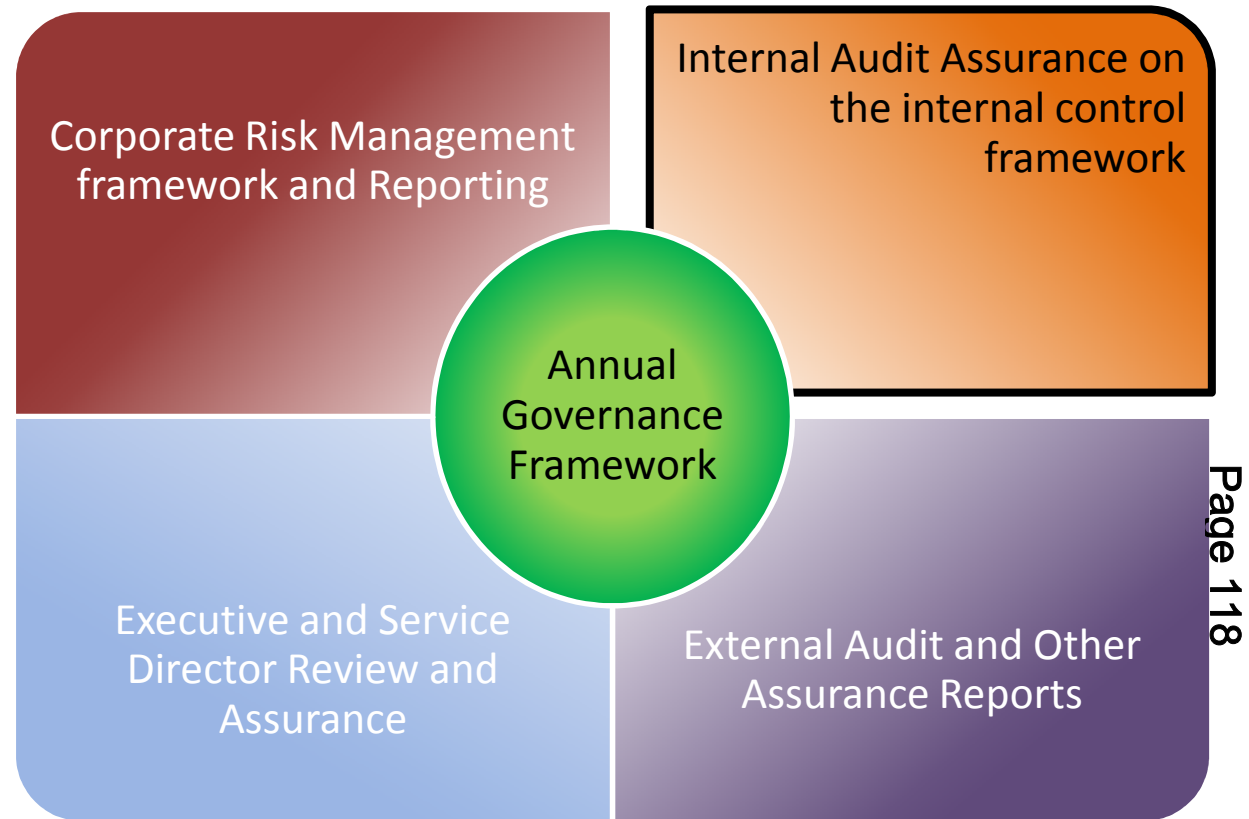
## Annual Governance Framework Assurance

The Annual Governance Statement provides assurance that

- The Authority's policies have been complied with in practice;
- high quality services are delivered efficiently and effectively;
- ethical standards are met;
- laws and regulations are complied with;
- processes are adhered to;
- performance statements are accurate.

The statement relates to the governance system as it is applied during the year for the accounts that it accompanies. It should:-

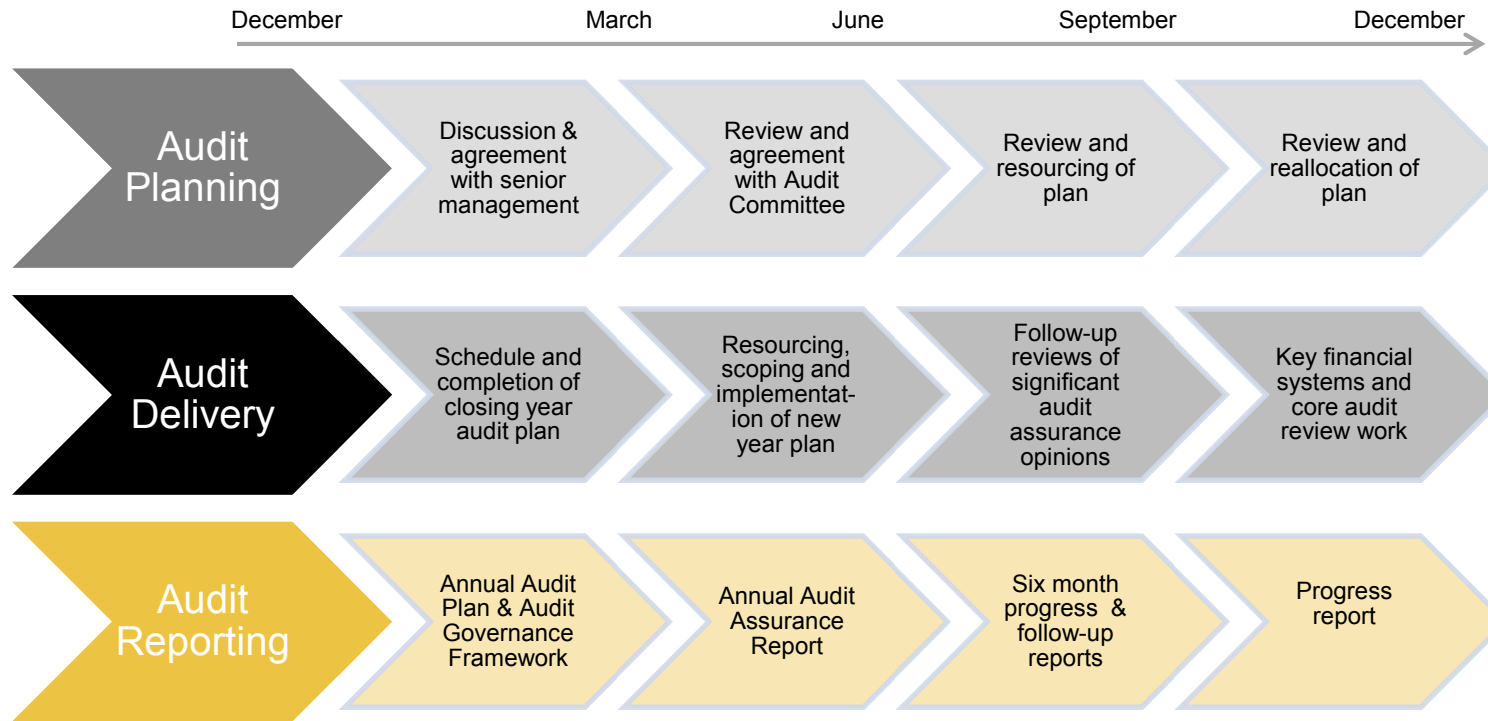
- be prepared by senior management and signed by the Chief Executive and Leader of the Council;
- highlight significant events or developments in the year;
- acknowledge the responsibility on management to ensure good governance;
- indicate the level of assurance that systems and processes can provide;
- provide a narrative on the process that is followed to ensure that the governance arrangements remain effective. This will include comment upon;
  - The Authority;
  - Audit Committee;
  - Risk Management;
  - Internal Audit
  - Other reviews / assurance
- Provide confirmation that the Authority complies with CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*. If not, a statement is required stating how other arrangements provide the same level of assurance.



The AGS needs to be presented to, and approved by, the Audit Committee, and then signed by the Chair.

The Committee should satisfy themselves, from the assurances provided by the Annual Governance Statement Working Group, CMT and Internal Audit that the statement meets statutory requirements.

## Our Audit Team and the Audit Delivery Cycle



Date	Activity
Dec / Jan 2016	Directorate planning meetings
March 2016	Internal Audit Plan presented to Audit Committee
	Internal Audit Governance Arrangements reviewed by Audit Committee
	Year end field work completed
Apr / May 2016	Annual Performance reports written
June 2016	Annual Internal Audit Report presented to Audit Committee
	Follow –up work of previous year’s audit work commences
Sept 2016	Follow-up and progress reports presented to Audit Committee
Dec 2016	Six month progress reports presented to Audit Committee
	2017 Internal Audit Plan preparation commences

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## Appendix 1 – Proposed audit reviews and associated risks

Risk Area / Audit Entity	Audit Needs Assessment (ANA)	Proposed Audit Work	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
<b>Transformation and Change</b>				
<b>Core Assurance – Key Financial System</b>				
I.T. Systems	ANA - High	A review of the core I.T. systems common to all the Council's Key Financial Systems. This will include application access controls at system admin level.	Q3 – Q4	20
Civica Financials: <ul style="list-style-type: none"> <li>• Creditors</li> <li>• Main Accounting</li> <li>• Debtors</li> </ul>	ANA – High / High / Medium	Follow-Up of 15/16 review, system walkthrough & some risk based sample testing for all systems. Standard review inc reconciliations. Follow on review of revision of process to achieve earlier reporting requirements. Review recovery and aged debt, inc Legal & Bailiffs	Q3 – Q4	55
Academy Revs & Bens: <ul style="list-style-type: none"> <li>• Housing Benefits</li> <li>• Council Tax</li> <li>• Business Rates NNDR</li> </ul>	ANA – High / Medium / Low	System walkthrough, some risk based sample testing and follow-up of 15/16 reviews for each service area.	Q3 – Q4	50
Capital Accounting - Fixed Asset Register	ANA - Medium	System walkthrough, some risk based sample testing and follow-up of 15/16 reviews.	Q4	10
Treasury Management	ANA - Medium	System walkthrough, some risk based sample testing and follow-up of 15/16 reviews.	Q3	10
iTrent - Payroll	ANA - Medium	System walkthrough, some risk based sample testing on existing and new functionality as the service embarks on Phase 2 of iTrent implementation and follow-up of 15/16 review	Q3	25
<b>Core Assurance - Other</b>				
Corp Information Management <ul style="list-style-type: none"> <li>• ILOG, FoI, DPA, Policies &amp; P's, EDRMS, End User Computing</li> </ul>	SRR46 - Amber ANA – High	Audit support with Authority's ILOG and examining policies and processes relating to the management of information held throughout the organisation.	Q1 – Q4	25

Risk Area / Audit Entity	Audit Needs Assessment (ANA)	Proposed Audit Work	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
Information Security (Includes Gov.Connect & PCI DSS)	SRR46 – Amber ANA - High	Trusted advisor role with Authority’s Strategy Group and ensuring that continuity plans are maintained and tested. 27001, PSN, PCI, Policies, Education	Q1 – Q4	5
ICT <ul style="list-style-type: none"> <li>• Service Strategy</li> <li>• Service Design</li> </ul>	ANA - High	Work will be undertaken to follow up on the findings of the 2015/16 Retained Client report as well as adopting a flexible approach to allocating ICT audit resources to reviewing or, supporting, the Council’s transformational change programme. ICT audit resources will also be input into general reviews of business systems including new business solutions, system development roadmaps and potential areas of service improvement that will deliver better value for money.	Q1 – Q4	30
ICT – Cyber Security	SRR113 – Amber ANA - High	Systems resilience in the context of increasing reliance on IT systems and digital service delivery	Q2	10
Grant Certification	Statutory	Those grants where the grant determination requires independent certification of expenditure by Internal Audit.	Q1 – Q4	20
<b>Transformation &amp; Change – Strategic and Operational</b>				
Transformation Process	SRR95 - Red ANA - High	Audit “trusted advisor” role to provide support, challenge and independent assurance. This will place Audit at the heart of proposed changes and enable the targeted use of audit resources to support project delivery and mitigate risks in a collaborative manner. Portfolio Office will provide a steer on areas for focus and these may include Change Pipeline, Gateway process, p3m3, lessons learned, benefits realisation.	Q1 – Q4	30
Management of Delt	ANA - High	Continued review and follow up including adherence with Service Level Agreements so that the Council’s assets are protected and that service benefits are being maximised.	Q2	10
Risk Management	ANA - High	Review evidence to support the collective mitigating actions shown on latest Strategic and Operational Risk Registers. Examination of how registers are used and assess the value that they add.	Q2	20
Schools Financial Value Standards (SFVS)	Statutory ANA - Low	Collection of SFVS self assessments completed by schools. Preparation of the Direct Schools Grant (DSG) Chief Financial Officer (CFO) Assurance Statement for 15/16 to be returned to DfE by 31 <sup>st</sup> May 2016	Q1 & Q4	10

Risk Area / Audit Entity	Audit Needs Assessment (ANA)	Proposed Audit Work	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
Audit Advice to Transformation & Change	n/a		n/a	20
Transformation & Change – Audit planning, monitoring and performance reporting	n/a		n/a	30
<b>People</b>				
<b>Core Assurance – Key Financial System</b>				
CareFirst <ul style="list-style-type: none"> <li>Income Collection (Adults)</li> <li>Residential Care Payments (Adults)</li> <li>Independent Placements (Children)</li> <li>Domiciliary Care – Follow up of 2014/15 Review (see below)</li> </ul>	ANA – High ANA – High ANA – Medium	Identify and review the systems in operation and undertake a programme of testing designed to measure compliance and to evaluate the effectiveness of system controls and satisfy External Audit requirements.  Additionally within Income Collection, an analysis of cost effectiveness to maximise recovery (income) through increased capacity to carry out Client Finance assessments.	Q2 - Q3	60
<b>Core Assurance - Other</b>				
Income Collection Strategy	ANA - Critical	Assessment of the Authorities approach to maximising income, the impact of changes to legislation, internal policy changes (Fairer Charging) and Deferred Payments income collection.	Q2 – Q3	20
Early intervention – Families with a Future	Statutory Client Request	Support for the development of processes for identifying families to be targeted for support along with independent verification of the Grant Claims.	Q2	12
Adult Social Care Retained Client Functions	SRR72 – Amber ANA - High	Continuation of the cyclical review (Commenced in 2015/16) of the areas within the People Retained Client following the transfer of the provision of Adult Social Care to Living Well. 2016/17 reviews will include Service Agreement Verification and Guardianships.	Q1 – Q4	20
Follow –Up of 2015/16 reviews	n/a	Review progress on the implementation of recommendations/actions agreed following the reviews of Direct Payments (Pre-Paid cards) and Domiciliary Care Payments, carried out in 2015/16.	Q1 and Q2 respectively	11

<b>Integrated Health and Wellbeing (Integrated Fund)</b>				
Compliance with/Delivery of Commissioning Strategies	ANA - Critical	The Integrated Fund is underpinned by four commission strategies. We will commence in 2016/17 a four year cyclical of review of one strategy each year. The work will include elements such as robustness, feasibility, achievement and evolution.	Q1 – Q4	20
Integrated Fund	SRR83 – Amber ANA - High	The Council and New Devon CCG have pooled and aligned budgets for Health and Wellbeing of Circa £460m. Audit support, challenge and assurance in this area will include; <ul style="list-style-type: none"> <li>• Governance Arrangements;</li> <li>• Financial Reporting Arrangements;</li> <li>• Section 75 Renewal;</li> <li>• Financial Framework Reviews.</li> </ul>	Q1 – Q4	25
CCG Success Regime	ANA - High	The CCG Success Regime will have an impact on the work of the Council. Audit input would include reviewing plans and considering how they relate to the council, looking for potential negative impacts that can be avoided. Furthermore, considering if the plans are in line with the Integrated Health and Wellbeing strategies.	Q1 – Q4	10
<b>Integrated Health and Wellbeing (Transformation Programme)</b>				
Children’s Improvement Board	SRR – Amber ANA - High	Audit Partner support of the development of robust and suitable solutions resulting from transformation work along with assurance on implementation and delivery of the key strategies. This may include co-review with the business across partners including the Council, New Devon CCG & Living Well to ensure the adequacy of appropriate controls within these solutions.  Additional work linked to Benefits Realisation may be undertaken for which approaches include reviewing the robustness of the rationale used to calculate savings and determine outcomes, post implementation reviews or a combination of both. All approaches would aim to provide feedback to enhance any future benefit setting processes.	Q1 – Q4	5
Commissioning Improvement Board	SRR – Amber ANA - High		Q1 – Q4	5
Transformation Programme Board	ANA - Medium		Q1 – Q4	5
System Enablers Board	ANA - Medium		Q1 – Q4	5
Audit Advice to People	n/a		n/a	20

People – Audit planning, monitoring and performance reporting	n/a		n/a	20
<b>Public Health</b>				
Joint IHWB Commissioning - Design of Future Service Delivery	SRR83 - Amber ANA - High	Review of the Integrated Commissioning System Design Group (SDG) looking at the way that the SDG works, are the processes likely to lead to effective outcomes.	Q2	20
Joint IHWB Commissioning - Service Delivery Performance Frameworks	SRR83 - Amber ANA - High	Review of systems and performance processes of the Integrated System Performance Intelligence Group (ISPIG) has a Performance Framework and an Integrated Commissioning Dashboard	Q3 - 4	20
Audit Advice to Public Health	n/a		n/a	5
Public Health – Audit planning, monitoring and performance reporting	n/a		n/a	10
<b>Place</b>				
Highways Maintenance Contract – letting and mobilisation	SRR107 - Amber ANA - Critical	Review of Evaluation of bids (due Summer 2016) and subsequent award & support for work streams bringing various systems back in-house.	Q1 – Q4	25
Street Services	SRR95 - Red ANA - High	Internal Audit will continue its work with management to provide assurance that service efficiencies are identified, evaluated and where appropriate, delivered within Street Services.	Q1 – Q4	25
History Centre (Record Office)	SRR108 Red ORR – ANA –Medium	Continued “trusted advisor” role as the project progresses, providing support and challenge through the new build development.	Q1 – Q4	5
Fleet Management inc Tranman and Operators Licences	SRR95 – Red ANA - Medium Client request	Internal Audit will act as “trusted advisor” to work alongside officers to provide advice, support and assurance with the implementation of a new fleet management system and audit partner support as the Council explores additional commercial opportunities in this area.	Q1 – Q4	10
Environmental Projects	ANA - Medium Client Request	Internal Audit will act as “trusted advisor” to work alongside officers to provide advice, support and assurance with the implementation of new projects e.g. PEC, Ernesettle Community Solar, GEM	Q2 – 3	10
Highways Act – Section 38 and Section 278	ANA – Low Client Request	Adoption of Highways - scope to be agreed including condition and liabilities.	Q2	12
Plymouth City Market	ANA - Medium Client request	Review of cash collection procedures	Q1	3



Audit Advice to Place	n/a		n/a	15
Place – Audit planning, monitoring and performance reporting	n/a		n/a	15
<b>Cross Cutting</b>				
Contract Management Strategy / Retained Client Function	ANA - High	Review the Council's overall strategy to contract management and the development of the Retained Client Function. Examine the different mechanisms, governance arrangements, infrastructure and good practice.	Q3	15
Review of Major Contracts	ANA - High	Review of contracts with major suppliers including Leisure Management and CaterEd, to provide assurance that contractual terms are being met, performance attained and value for money achieved.	Q2 – Q3	20
Civica Financials Project	ORR F7 ANA - High	Audit partner at Project Board and support and challenge work undertaken by Project Team to ensure better, more efficient use of the Council's current financial systems whilst maintaining sound, proportionate controls. Key areas could include : <ul style="list-style-type: none"> <li>- integrated system links;</li> <li>- "E" invoicing;</li> <li>- user lead performance analysis – FWEB;</li> <li>- intelligent scanning.</li> </ul>	Q1 – Q4	5
Business Continuity	SRR08 - Green, ORR CS5 - Amber ANA - High	Audit have seat on Strategy Group. Continuous monitoring of management action especially in light of staff turnover and changes in structures. A check of contingency plans of providers/suppliers as well as the Council should providers fail.	Q1 – Q4	10
Firmstep Digital Platform	ANA - High	Audit partner at Project Board to provide support and challenge to the project and work undertaken by project teams. To assist, where appropriate, in ensuring the delivery of more effective and efficient processes for engaging with the public.	Q1 – Q4	15
Commercialisation	ANA - High	A review of the Council Strategy, culture, options appraisal and capability	Q1 – Q4	15
Alternative Service Delivery Vehicles (ASDV)	ANA - High	Business Case Assurance, Following the development and launch of the ASDV Toolkit, Audit will review how it is being utilised.	Q3	10
Co-operative Review of Services	ANA - High	Assistance in the "As is" review of "nominated" services. This will include data collection, mapping, service design.	Q1 – Q4	10

<b>Other Chargeable Activities (not incorporated above)</b>				
Corporate Governance	n/a	Support for Audit Committee, annual follow up for Audit Committee, corporate governance, internal audit standards, customer service excellence, audit development, liaison with external audit etc	Q1 – Q4	85
Completion of 2015/16 Audit Plan	n/a		Q1	27
Contingency	n/a		n/a	25

**Risk Assessment Key**

SRR – Local Authority Strategic Risk Register score Impact x Likelihood = Total and Level  
 ORR - Local Authority Operational Risk Register score Impact x Likelihood = Total and Level  
 ANA - Audit Needs Assessment risk level as agreed with Client Senior Management  
 Client Request – additional audit at request of Client Senior Management

## Appendix 2 – Audits currently deferred / un-resourced

Risk Area / Audit Entity	Audit Needs Assessment (ANA)	Proposed Audit Work	Proposed Timings (Quarter)	Estimated Audit Effort (Days)
<b>Transformation and Change</b>				
Printing and Documentation	ANA - Medium Client Request	Commercialisation Opportunities		10
Travel and Subsistence	ANA -Medium	Compliance spot checks and HMRC VAT compliance		3
<b>People</b>				
Care Act Compliance	ANA - low Client Request	Real time support and challenge on the continued implementation of the Care Act requirements (inc Deferred Payments).		7
Child Adolescent Mental Health Services (CAMHS)	ANA - Medium Client Request	Work based around review of service operation and prioritisation of service delivery within the resource limitations.		15
Homelessness & Temporary Accommodation	ANA - Medium	Examine the provision of services, compliance with statutory requirements and impact of future funding changes, additionally the links with Plymouth Community Homes.		10
Special Education Needs	ANA - Medium	Compliance review of the seven key principles of SEND 0-25 Code of Practice, identifying children's needs and arranging suitable services to meet these.		10
<b>Place</b>				
Integrated Transport Programme (inc Fleet Management)	ANA - Medium Client Request	Continuation of 2015-16 audit work on review of "gateways" to the four integration strands		5
Waste PFI	ANA - Low	Support to the Project Executive and Contract Team and on-going audit and assurance of contract management arrangements		5
<b>Cross cutting</b>				
Service Integration Management (SIM)	ANA - Low	Development of Commercialisation, Retained Client, Contract Management, Procurement.  (Specific reviews elsewhere in the plan are looking at some of these areas providing some assurance)		25

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# PLYMOUTH CITY COUNCIL

## External Audit Progress Report

March 2016



# INTRODUCTION

This report is intended to provide the Audit Committee with an update of our audit work for 2015/16.




Auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code of Audit Practice for Local Government, the audited body's:

- financial statements
- arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to certify specified grant claims and returns as directed by Public Sector Audit Appointments Ltd.





We will assess whether the arrangements put in place by the Council will allow us to complete our work by the expected deadlines and whether there are any issues that are likely to have a significant impact on our ability to provide unmodified audit reports and opinions.

This will be included as a "RAG" assessment in the report. We have yet to perform any substantive work at the Council and therefore the green rating against each area is an initial assumption that will need to be confirmed as part of our interim work.




ASSESSMENT		EXPLANATION
RED		Unlikely to be able to meet reporting deadlines, significant concerns over governance or finance, or expected modification of audit report or opinion.
AMBER		Some concerns around meeting reporting deadlines, some concerns over governance or finance, or potential risk of modification of audit report or opinion.
GREEN		On target to meet deadlines and no current concerns over governance or finance.

We have also included for your information references to recent publications and emerging issues relating to local government as an attachment to this report.

# AUDIT PROGRESS

AUDIT AREA	SCOPE	PROGRESS	OUTPUTS / DATE	RAG
<b>PLANNING</b>				
Audit plan	We are required to report to you the results of our audit planning, our risk assessment and the proposed audit response to significant audit risks ahead of commencement of the audit work.	We have had meetings with the Director of Finance and the Finance Team. We have discussed audit deliverables and timetables. We have undertaken detailed planning work in December and have prepared an audit plan issued to the Audit committee in March 2016.	<p><b>Planning Letter 2015/16</b></p> <p>Issued April 2015 and reported to the Audit Committee on 25 June 2015. This set out our audit fees for the year</p> <p><b>Audit Plan 2015/16</b></p> <p>Issued to the Audit Committee on 24 March 2016.</p>	
<b>ACCOUNTS</b>				
Review of internal controls	Audit of the significant financial systems that support the financial statements to be completed before draft accounts are prepared.	This was covered as part of our planning and interim work in December/January. Testing was carried out on the controls to confirm they are operating in line with expectations. There were no issues arising from the review of financial systems, but we expect to conclude on our work in March and any recommendations will be fed back to the Finance Team and reported to the Audit Committee in due course.	<p>The results of this work will be taken into account in directing our audit strategy for the audit of the financial statements.</p> <p>If required, recommendations will be included in our annual governance report to the Audit Committee.</p>	
Financial statements audit	<p>Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year.</p> <p>Deadline for issue of audit opinion and publication of the statement of accounts is 30 September 2016, although we are working towards a deadline of 31 August 2016.</p>	The scope of the audit and risk assessment will be revisited following our review of the effectiveness of internal controls and review of the draft financial statements. Start date proposed as 13 June 2016.	<p><b>Audit findings and conclusions being reported in the Final Report to the Audit Committee on 17 September.</b></p> <p>Target issue date August 2016.</p> <p><b>Opinion on the financial statements</b></p> <p>Target issue date August 2016.</p>	
Whole of government accounts audit	<p>Audit of the consolidation pack for consistency with the audited statement of accounts.</p> <p>Consolidation pack opinion - deadline 2 October 2016.</p>	To be completed in August 2016.	<p><b>Opinion on the WGA Consolidation Pack</b></p> <p>Target date 2 October 2016.</p>	

# AUDIT PROGRESS

AUDIT AREA	SCOPE	PROGRESS	OUTPUTS / DATE	RAG
<b>USE OF RESOURCES</b>				
Review of arrangements to secure economy, efficiency and effectiveness	<p>Review of use of resources based on:</p> <ul style="list-style-type: none"> <li>proper arrangements in place for securing financial resilience</li> <li>proper arrangements for challenging how the Council secures economy, efficiency and effectiveness.</li> </ul> <p>Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2016 (target end August 2016)</p>	Throughout the year we will have regular liaison meetings with management to discuss any significant concerns in relation to the use of resources. We will also review and take in to consideration results of inspections and reviews carried out by other regulators.	<p>Audit findings and conclusions will be reported in the Final Report to the Audit Committee on 17 September.</p> <p>Target issue date August 2016.</p> <p>VFM conclusion</p> <p>Target issue date August 2016.</p>	
<b>REPORTING</b>				
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2016.	This will follow completion of the Audit.	<p><b>Annual Audit Letter</b></p> <p>Target issue date October 2016.</p>	
<b>GRANTS CERTIFICATION</b>				
Grants and returns	To audit and submit grant claims and returns by the relevant deadlines.	Work in progress.	All <b>grants claims and returns</b> to be audited in line with the agreed timetable and deadlines.	
Grants Report	Summary of our certification work completed on 31 March 2016 claims, to be issued by December 2016	To be drafted after certification work concluded.	<b>Grants Report</b> to those charged with governance to be issued by December 2016.	



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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# PLYMOUTH CITY COUNCIL

PLANNING REPORT TO THE AUDIT COMMITTEE  
Audit for the year ending 31 March 2016

Date of issue: 14 March 2016



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# INTRODUCTION

## PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of the authority for the year ending 31 March 2016. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit Committee and should not be shown to any other person without our express permission in writing.

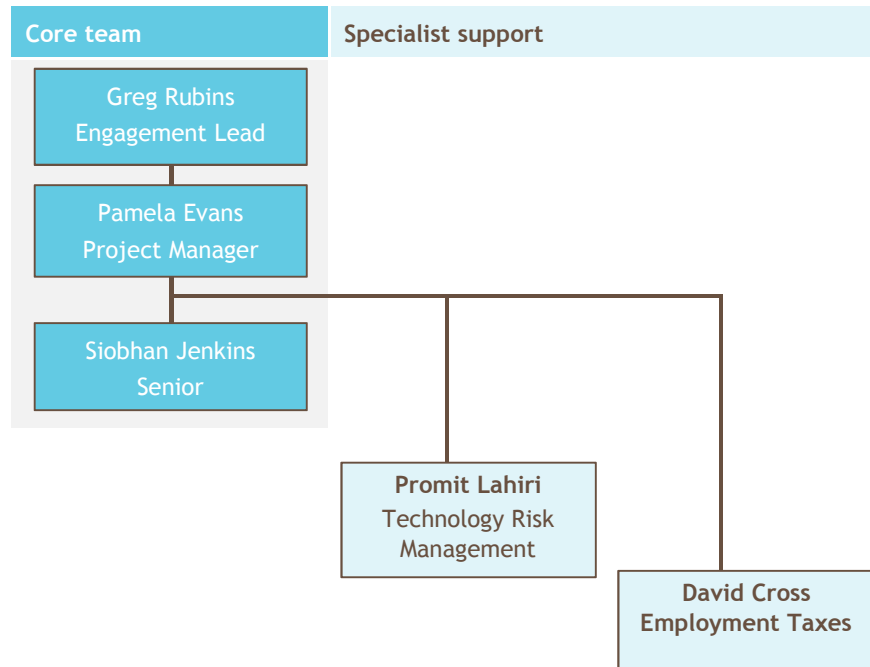
In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

## CONTENT OF OUR REPORT

In this report, we set out the following:

- Our team and responsibilities for this year's audit
- Our client service commitment
- An overview of the audit timetable with key dates and deliverables
- The audit scope and objectives
- Our preliminary evaluation of materiality
- Our overall audit strategy
- Our initial assessment of the key audit risks and other relevant matters along with our planned audit approach
- Confirmation of independence and consideration of any independence related matters
- Our proposed fees for the audit.

# YOUR BDO TEAM



Name	Contact details	Key responsibilities
<b>Greg Rubins</b> Engagement Lead	Tel: 0238 088 1892 greg.rubins@bdo.co.uk	Oversee the audit and sign the audit report
<b>Pamela Evans</b> Project Manager	Tel: 0117 930 1584 pamela.evans@bdo.co.uk	Management of the audit
<b>Siobhan Jenkins</b> Senior	Tel: 0117 930 1616 siobhan.jenkins@bdo.co.uk	Day to day supervision of the on-site audit
<b>Promit Lahiri</b> Technology Risk Manager	Tel: 020 7893 3526 promit.lahiri@bdo.co.uk	Manage IT review for audit purposes
<b>David Cross</b> Employment Tax Manager	Tel: 0117 930 1517 david.cross@bdo.co.uk	Manage employment tax review for audit purposes

Greg Rubins is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

- the financial statements are free from material misstatement, whether due to fraud or error
- the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Greg Rubins is responsible for the overall quality of the engagement.

# OUR CLIENT SERVICE COMMITMENT TO YOU

## CLIENT SERVICE EXPECTATIONS

1

High quality audit service at a reasonable cost.

2

A quality team, with relevant expertise.

3

Clear communication.

4

Concentrating our work on areas of higher risk.

5

Avoiding surprises through timely reporting of issues.

6

Consulting with management to resolve matters early.

7

Meeting deadlines.

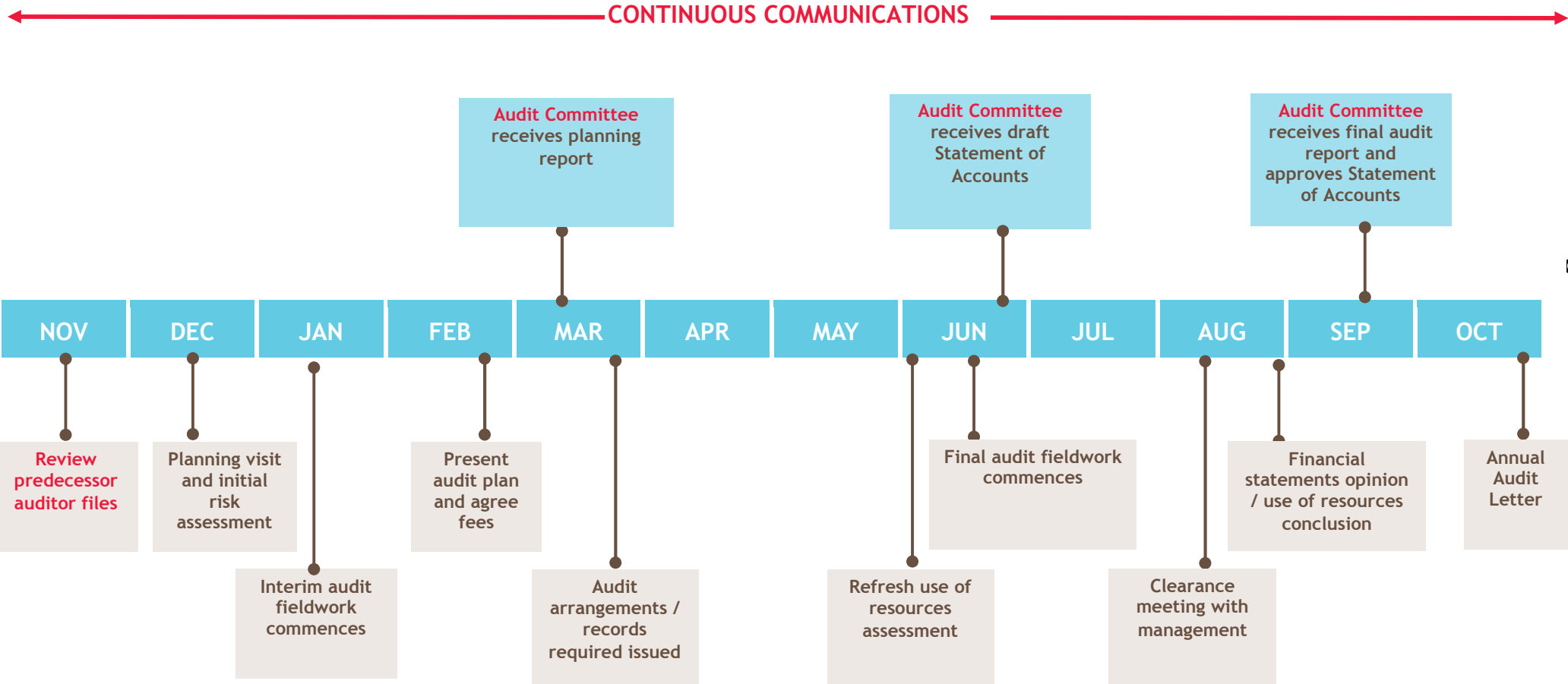
8

Identifying shortcomings in controls and processes.

# ENGAGEMENT TIMETABLE

## TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.





# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<p><b>1</b> The financial statements give a true and fair view of the financial position of the authority and its expenditure and income for the period in question.</p>	<p><b>2</b> The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p><b>3</b> Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p><b>4</b> The return required to facilitate the preparation of WGA consolidated accounts is consistent with the audited financial statements.</p>	<p><b>5</b> The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

## ADDITIONAL POWERS AND DUTIES

<p><b>6</b> To consider the issue of a report in the public interest. To make a written recommendation to the authority.</p>	<p><b>7</b> To allow electors to raise questions about the accounts and consider objections. To apply to the court for a declaration that an item of account is contrary to law. To consider whether to issue an advisory notice or to make an application for judicial review.</p>
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# MATERIALITY

## AUTHORITY MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Plymouth City Council	10,800,000	£324,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the Council has been based on 1.75% of the budgeted gross expenditure. At this stage, the figure is based on the forecast outturn per the December management accounts. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 3% of the materiality level.

# OVERALL AUDIT STRATEGY

## We will perform a risk based audit on the authority's financial statements and use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the authority's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk during our planning visit in order to gain an understanding of the authority's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to risks.

## Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties

- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the authority in forming our risk assessment and audit strategy.

## Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit planning and consider whether we are able to place any reliance on internal audit work as evidence of the soundness of the control environment.

# KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other issue

## AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<b>Management override</b>	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under International Standards on Auditing (UK and Ireland) 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements”, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates as a significant fraud risk and we will undertake appropriate audit procedures to focus on these areas.</p> <p>In every organisation, management may be in a position to override routine day to day financial controls. Accordingly, our audit has been designed to consider this risk and adapt procedures accordingly.</p>	Not applicable.
<b>Revenue recognition</b>	<p>Under International Standard on Auditing 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements” there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.</p> <p>In particular, we consider there to be a significant risk in respect of the existence (recognition) and accuracy of the revenue and capital of grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p> <p>We also consider there to be a significant risk in relation to the completeness and existence of fees and charges in relation to Adult Services income recorded in the CIES.</p>	<p>We will carry out audit procedures to gain an understanding of the authority’s internal control environment for the significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period.</p> <p>We will test a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.</p> <p>We will test a sample of fees and charges income to ensure income has been recorded in the correct period and that all income that should have been recorded has been recorded.</p>	Government grant funding will be agreed to information published by the sponsoring Department.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Waste to energy PFI	PCC, along with Torbay Council and Devon County Council, is a member of the SW Devon Waste Partnership. The Partnership has jointly procured a waste to energy arrangement run by MVV Umwelt through a Private Finance Initiative. Total capital costs are around £191m, financial close was reached in 2011 and the facility became operational in September 2015. A decision needs to be made as to whether the facility should be on or off the balance sheet of PCC and its partners. Financial advice from PwC has suggested it would be off balance sheet, mainly due to the high level of third party income but the Partnership believes it should be on balance sheet. Both parties accept that the decision is finely balanced. This is a complex scheme which is material to the Council and it is important that it is correctly accounted for.	We will review the accounting of the scheme, using a PFI specialist within the BDO team. We will also liaise with Grant Thornton, as the auditors of the other Councils within the Partnership, to agree a consistent treatment. We have agreed additional fees for this work. Once the accounting treatment is agreed we will audit the model used by the Partnership to provide the relevant accounting entries.	We will review the PwC accounting advice and EY financial model.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Investment property valuations	<p>The Code has introduced a change in the basis of valuation of investment properties (IFRS 13), from a market value to a 'highest and best use' valuation. There is a possibility that valuations may be significantly different in certain circumstances particularly where an investment property could be developed for use with alternative consents, such as residential conversion, or where a current lease term is coming to an end and the property could be developed to enhance rental amounts.</p> <p>The Council will instruct the valuer to carry out the annual valuation of the investment property portfolio having regard to the possibility of significant change in valuations under the highest and best use approach.</p> <p>This is not considered to be a change in accounting policy but a change in estimation technique that should be applied prospectively from 1 April 2015.</p> <p>Due to the significant carrying value of investment properties and inherent uncertainty that this new valuation basis could introduce, there is a risk that investment properties may not be appropriately valued as at 31 March 2015 and 31 March 2016.</p>	<p>We will review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage and relevant observable inputs.</p>	<p>We will review independent data that shows indices and price movements for investment properties in the region.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Property, plant and equipment valuations	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.</p> <p>In order to do this the Council carries out a rolling programme to ensure that all PPE required to be measured at fair value is revalued at least every 5 years. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards for RICS. A review of Other land and buildings was also carried out in the prior year to ensure that the previous valuation is not materially different to the fair value and no issues arose from this.</p>	<p>We will review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage. We will confirm that an instant build modern equivalent asset basis has been used for assets valued at DRC.</p> <p>We will review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices.</p>	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</p>
Group entities	<p>There are a number of entities/transactions which have been set/entered into by the Council in the prior year that we need to assess the impact on the current years accounts:</p> <p>CaterED Limited - the Council set up a company and has transferred the catering for schools contract for the area to be run through this company. Due to the materiality of this company, this is likely to need to be treated as a group company and therefore consolidated into the accounts in the current year.</p> <p>DELTA - the Council has entered into a group arrangement for IT services with North East and Western Devon Clinical Commissioning Group (NEWDCCG).</p> <p>Better Care Fund (BCF )- due to the changes in regulations the health care funding in the current year is made through a new pooling arrangement. The NEWDCCG is the host but each party is accounting for transactions on its own ledgers.</p>	<p>We will review the accounts of the CaterED Limited and DELTA and ensure that they are correctly consolidated into the Councils accounts.</p> <p>We will need to understand the BCF contract and ensure that it is accounted for correctly within the Council accounts in the current year. We will liaise with the NEWDCCG's auditors of the Better Care Fund to agree the correct treatment. We will also test 11 months' expenditure by PCC to provide assurance to the NEWDCCG's auditors before they sign the NEWDCCG accounts in May.</p>	<p>We will review the accounts prepared by CaterED Limited and DELTA Limited.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions	<p>The net pension liability comprises the authority's share of the market value of assets held in the Plymouth City Council Scheme and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will agree the disclosures to the information provided by the pension fund actuary.</p> <p>We will review the controls for providing accurate membership data to the actuary.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p> <p>We will liaise with the pension fund auditors to ensure that we have the correct information within the required timescales.</p>	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>
Non-domestic rates appeals provision	<p>Billing authorities are required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled. Management use this information to calculate a success rate for specific business types for settled appeals, and applies an appropriate rate to each type of business appeal still outstanding at year end.</p> <p>We consider there to be a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.</p> <p>We are aware that some NHS organisations are also appealing their business rate charge and are seeking to obtain charitable status to claim mandatory rate relief.</p>	<p>We will review the accuracy of the appeals data to confirm that it is complete based on the VAO list, and that settled appeals are removed.</p> <p>We will review the assumptions used in the preparation of the estimate including the historic success rates to confirm if the rates applied are appropriate.</p> <p>We will monitor progress with the potential rate relief claims from NHS organisations and the potential impact on the collection fund account.</p>	<p>We will compare the listing of current appeals to listings from the VOA.</p>



# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Highways network assets	The Code will adopt the revised basis for valuations of highways network assets from 2016/17 (depreciated historic cost to depreciated replacement cost), and this will require implementation from 1 April 2016 but with no restatement for 2015/16.	We will review the 'new standards adopted but not yet implemented' disclosure note to ensure that the potential impact (where quantified) on the 2016/17 financial statements on the valuation of the highways network asset is disclosed.	Not applicable.
Consideration of related party transactions	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.	We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions. We will discuss with management and review councillors and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.	Companies House searches for undisclosed interests.
Narrative reporting	The Council will be required to produce a 'Narrative Report' replacing the Explanatory Foreword in the financial statements.  The Narrative Report includes additional information not previously included in the Explanatory Foreword.	We will compare the narrative report against the Code requirements to ensure that all elements of the narrative report are correctly included.  We will review the narrative report to ensure consistency with our understanding of the entity and the financial statements.	Not applicable.
Fraud and error	We are required to discuss with you the possibility of material misstatement, due to fraud or error.  We are informed by management that there have not been any cases of material fraud or error, to their knowledge.	We will continue to consider throughout the audit process and discuss with management.	Not applicable.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Sustainable finances	<p>The Council has needed to draw down reserves of nearly £1m to produce a balanced budget in 2016/17, given the significant reduction in government funding. In addition, they have also consulted with us on changes to the Minimum Revenue Provision calculation. The pressures of further funding reductions, social care demand and new costs such as the national living wage will contribute to an even greater challenge in future years and this is likely to require difficult decisions around service provision and alternative delivery models.</p>	<p>We will review the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied. We will monitor the delivery of the budgeted savings in 2015/16 and the plans to reduce services costs and increase income from 2017/18. We will also review the strategies to close the budget gap after 2016/17. We will also confirm that any changes to the Minimum Revenue Provision calculation are in accordance with instructions set out by the DCLG and auditor guidance.</p>	N/A
Partnership working	<p>The guidance from the NAO on value for money requires us to consider partnership working by the Council. As stated above, the Council has a number of partnership arrangements in place, including DELT, the waste to energy PFI and Better Care Fund (BCF). As with any partnership arrangements, there are risks around governance, control and value for money. The BCF is being established across England and we do not see any evidence to date of heightened risks in Plymouth but it will remain an area of audit focus. It is too soon to assess the impact of DELT and the PFI but governance of these should also be an area of audit focus.</p>	<p>We will review the plans the Council has in place for joint working, particularly around the BCF. We will assess whether the Council has considered adequately the risks around BCF, the governance of the Fund and how value for money is measured.</p>	<p>We will co-ordinate our work with the NEWDCCG's auditors and also review publicly available information produced by the NEWDCCG.</p>

# INDEPENDENCE

## INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2016. We have not identified any potential threats to our independence as auditors.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

# FEES

## FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2016 are:

	£
Audit fee	136,874
Certification fee (Housing benefits subsidy)	17,477
<b>Total audit and certification fees:</b>	<b>154,351</b>
Fees for audit related services (see below)	10,000
Fees for non-audit services (see below)	
<b>TOTAL FEES</b>	<b>164,351</b>

## OTHER FEES ANALYSIS

### Audit related services:

Waste to energy PFI additional audit work	10,000
<b>Total</b>	<b>10,000</b>

### Non audit services:

None to date	
<b>Total</b>	<b>10,000</b>

Fee invoices will be raised as set out below, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice:

- Audit fee is being paid quarterly in arrears from end June 2015
- Certification of the housing benefits subsidy claim will be billed on completion of the work.

### Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

# APPENDIX I: MATERIALITY

## CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
  - Narrative disclosure e.g. accounting policies, going concern
  - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the authority, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
  - Assist in establishing the scope of our audit engagement and audit tests
  - Calculate sample sizes
  - Assist in evaluating the effect of known and likely misstatements on the financial statements.

# APPENDIX I: MATERIALITY

## Continued

### REASSESSMENT OF MATERIALITY


- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

### UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
  - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
  - Other misstatements that we believe are material or clearly wrong.

## APPENDIX II: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Greg Rubins - Engagement lead	1	2021
Engagement quality control reviewer	1	2025
Pamela Evans - Project manager	1	2026



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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**PLYMOUTH CITY COUNCIL**

**Subject:** Internal Audit Charter and Strategy 2016/17  
**Committee:** Audit Committee  
**Date:** 24 March 2016  
**Cabinet Member:** Councillor Lowry  
**CMT Member:** Lesa Annear (Strategic Director for Transformation & Change)  
**Author:** Robert Hutchins, Head of Devon Audit Partnership  
**Contact details:** robert.hutchins@devonaudit.gov.uk T: 01752 306710  
**Ref:** AUD/RH  
**Key Decision:** No  
**Part:** I

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**Purpose of the report:**

1. One of the requirements of the Public Sector Internal Audit Standards (PSIAS) is that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter and strategy, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The internal audit charter and strategy for the financial year 2016/17 are described in detail in the accompanying report.
2. The PSIAS sets additional Public Sector requirements where the internal audit charter and strategy must also:
  - define the terms 'board' and 'senior management' for the purposes of internal audit activity;
  - cover the arrangements for appropriate resourcing;
  - define the role of internal audit in any fraud-related work; and
  - include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.
3. The Audit Strategy:
  - is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities;
  - will communicate the contribution that Internal Audit makes to the organisation and should include:
    - internal audit objectives and outcomes;
    - how the Head of Devon Audit Partnership will form and evidence his opinion on the governance, risk and control framework to support the Annual Governance Statement;
    - how Internal Audit's work will identify and address significant local and national issues and risks;
    - how the service will be provided, and
    - the resources and skills required to deliver the Strategy;
    - should be approved, but not directed, by the Audit Committee.
4. The Charter and Strategy complies with the mandatory requirements of the Public Sector Internal Audit Standards.
5. Delivery of the Internal Audit Service will be by the Devon Audit Partnership, a shared services arrangement between Devon County Council, Plymouth City and Torbay Councils in accordance with the agreed internal audit plan.

**The Brilliant Co-operative Council Corporate Plan 2013/14 -2016/17:**

The work of the Internal Audit Service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting high standards of service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council’s statutory obligations.

The delivery of the Internal Audit Service assists all directorates in delivering outcomes from the Corporate Plan:-

- Pioneering Plymouth – by ensuring that resources are used wisely and that services delivered meet or exceed customer expectations;
- Confident Plymouth - the Government and other agencies have confidence in the Council and partners.

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**Implications for Medium Term Financial Plan and Resource Implications:  
Including finance, human, IT and land**

None.

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**Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:**

The work of the Internal Audit Service is an intrinsic element of the Council’s overall corporate governance, risk management and internal control framework.

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**Equality and Diversity**

Has an Equality Impact Assessment been undertaken? No

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**Recommendations and Reasons for recommended action:**

It is recommended that:

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That the Committee agrees the Internal Audit Charter & Strategy for the year 2015/16

**Alternative options considered and rejected:**

None, as failure to maintain an adequate and effective system of internal audit would contravene the Accounts & Audit Regulations 2003, 2006, 2011 & 2015 & the Public Sector Internal Audit Standards.

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**Published work / information:**

None

**Background papers:**

None

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	

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**Sign off:**

Fin	<b>DN</b>	Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member													
Has the Cabinet Member(s) agreed the contents of the report? No													

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## **PLYMOUTH CITY COUNCIL**

### **INTERNAL AUDIT CHARTER (March 2016)**

#### **TERMS OF REFERENCE**

This Charter formally describes the purpose, authority, and principal responsibilities of the Council's Internal Audit Service, which is provided by the Devon Audit Partnership (DAP), and the scope of Internal Audit work. This Charter complies with the mandatory requirements of the Public Sector Internal Audit Standards.

#### **DEFINITIONS**

Internal auditing is defined by the Public Sector Internal Audit Standards (PSIAS) as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

The PSIAS set out the requirements of a 'Board' and of 'senior management'. For the purposes of the internal audit activity within The Council the role of the Board within the Standards is taken by the Council's Audit Committee and senior management is the Council's Corporate Management Team.

The PSIAS make reference to the role of “Chief Internal Auditor”. For The Council this role is fulfilled by the Head of Devon Audit Partnership.

#### **STATUTORY REQUIREMENTS**

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

*5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In The Council, the Assistant Director for Finance is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

## **THE PURPOSE AND AIM OF INTERNAL AUDIT**

The role of Internal Audit is to understand the key risks of the Council; to examine and evaluate the adequacy and effectiveness of the system of risk management and the entire control environment as operated throughout the organisation and contribute to the proper, economic, efficient and effective use of resources. In addition, the other objectives of the function are to:

- support the Section 151 Officer to discharge his / her statutory duties
- contribute to and support the Finance function in ensuring the provision of, and promoting the need for, sound financial systems
- support the corporate efficiency and resource management processes by conducting value for money and efficiency studies and supporting the work of corporate working groups as appropriate
- provide a quality fraud investigation service which safeguards public monies.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

Internal Audit for The Council is provided by Devon Audit Partnership. We aim to provide a high quality, professional, effective and efficient Internal Audit Service to the Members, service areas and units of The Council, adding value whenever possible.

## **PROFESSIONALISM, ETHICS AND INDEPENDENCE**

### **Being Professional**

We (Devon Audit Partnership) will adhere to the relevant codes and guidance. In particular, we adhere to the Institute of Internal Auditors' (IIA's) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for evaluating the effectiveness of Internal Audit's performance. The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to The Council's relevant policies and procedures and the internal audit manual.

Internal Auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not, however, imply infallibility.

### **Our Ethics**

Internal auditors in UK public sector organisations must conform to the Code of Ethics as set out by The Institute of Internal Auditor's. This Code of Ethics promotes an ethical culture in the profession of internal auditing. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The Code of Ethics extends beyond the definition of internal auditing to include two essential components:

1. Principles that are relevant to the profession and practice of internal auditing;
2. Rules of Conduct that describe behaviour norms expected of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others, and applies to both individuals and entities that provide internal auditing services.

The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace Codes of Ethics of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

## **Being Independent**

Internal Audit should be independent of the activities that it audits.

The status of Internal Audit should enable it to function effectively. The support of the Council is essential and recognition of the independence of Internal Audit is fundamental to its effectiveness.

The Head of Devon Audit Partnership should have direct access to and freedom to report in his or her own name and without fear or favour to, all officers and members and particularly to those charged with governance (the Audit Committee). In the event of the necessity arising, the facility also exists for Internal Audit to have direct access to the Chief Executive, the S.151 Officer and the Chair of the Audit Committee.

The Council should make arrangements for Internal Audit to have adequate budgetary resources to maintain organisational independence.

The Head of Devon Audit Partnership should have sufficient status to facilitate the effective discussion of audit strategies, audit plans, audit reports and action plans with senior management and members of the Council.

Auditors should be mindful of being independent. They;

- Must have an objective attitude of mind and be in a sufficiently independent position to be able to exercise judgment, express opinions and present recommendations with impartiality;
- Notwithstanding employment by the Partnership / Council, must be free from any conflict of interest arising from any professional or personal relationships or from any pecuniary or other interests in an activity or organisation which is subject to audit;
- Must be free from undue influences which either restrict or modify the scope or conduct of their work or significantly affect judgment as to the content of the internal audit report; and
- Must not allow their objectivity to be impaired by auditing an activity for which they have or have had responsibility.

## **AUTHORITY**

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement.

All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. This is enforced in the Accounts and Audit (England) Regulations 2011 section 6(2) that state that:

All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. This is enforced in the Accounts and Audit (England) Regulations 2015 section 5(2-3) that state that:

Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—

- (2) (a) make available such documents and records; and
- (b) supply such information and explanations;

as are considered necessary by those conducting the internal audit.

(3) In this regulation “documents and records” includes information recorded in an electronic form.

In addition, Internal Audit, through the Head of Devon Audit Partnership, where deemed necessary, will have unrestricted access to:

- the Chief Executive
- Members
- individual Heads of Service
- Section 151 Officer
- Monitoring Officer
- all authority employees
- all authority premises.

### **ACCOUNTABILITY**

Devon Audit Partnership is a shared service established and managed via a Partnership Committee and Board with representation from each of the founding partners. The Partnership operates as a separate entity from the client authorities and Internal Audit is therefore independent of the activities which it audits. This ensures unbiased judgements essential to proper conduct and the provision of impartial advice to management. Devon Audit Partnership operates within a framework that allows the following:

- unrestricted access to senior management and members
- reporting in its own name
- separation from line operations

Every effort will be made to preserve objectivity by ensuring that all audit members of audit staff are free from any conflicts of interest and do not, ordinarily, undertake any non-audit duties.

The Head of Devon Audit Partnership fulfils the role of Chief Auditor at the Authority and will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

The Assistant Director for Finance ‘Section 151 Officer’ will liaise with the Head of Devon Audit Partnership and is therefore responsible for monitoring performance and ensuring independence.

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Head of Devon Audit Partnership reports functionally to the Audit Committee on items such as:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- receiving reports from the Head of Devon Audit Partnership on the section’s performance against the plan and other matters;
- approving the Head of Devon Audit Partnership’s annual report’
- approve the review of the effectiveness of the system of internal audit.

The Head of Devon Audit Partnership has direct access to the Chair of Audit Committee and has the opportunity to meet with the Audit Committee in private.



## RESPONSIBILITIES

The Chief Executive, Service Directors and other senior officers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services.

The Head of Devon Audit Partnership will provide assurance to the Assistant Director for Finance 'Section 151 Officer' regarding the adequacy and effectiveness of the Council's financial framework, helping meet obligations under the LGA 1972 Section 151.

The Head of Devon Audit Partnership will provide assurance to the Monitoring Officer in relation to the adequacy and effectiveness of the systems of governance within the Council helping her meet obligations under the Local Government and Housing Act 1989 and the Council's Constitution. He will also work with the Monitoring Officer to ensure the effective implementation of the Council's Whistleblowing Policy.

Internal Audit responsibilities include but are not limited to:

- examining and evaluating the soundness, adequacy and application of the Council's systems of internal control, risk management and corporate governance arrangements;
- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- investigating alleged fraud and other irregularities referred to the service by management, or concerns of fraud or other irregularities arising from audits, where it is considered that an independent investigation cannot be carried out by management;
- appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties including Value for Money Studies;
- working in partnership with other bodies to secure robust internal controls that protect the Council's interests;
- advising on internal control implications of new systems;
- providing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- being responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to senior management, including fraud risks, governance issues.

## INTERNAL AUDIT MANAGEMENT

The PSIAS describe the requirement for the management of the internal audit function. This sets out various criteria that the Head of Devon Audit Partnership (as Chief Internal Auditor) must meet, and includes:-:

- be appropriately qualified;
- determine the priorities of, deliver and manage the Council's internal audit service through a risk based annual audit plan;
- produce a Strategy to explain how the service will be delivered and reflect the resources and skills required;
- regularly liaise with the Council's external auditors to ensure that scarce audit resources are used effectively;
- include in the plan the approach to using other sources of assurance if appropriate;
- be accountable, report and build a relationship with the Council's Audit Committee and S.151 Officer; and

- monitor and report upon the effectiveness of the service delivered and compliance with professional and ethical standards.

The Head of Devon Audit Partnership is required to give an annual audit opinion on the governance, risk and control framework based on the audit work done.

The Head of Devon Audit Partnership should also have the opportunity for free and unfettered access to the Chief Executive and meet periodically with the Monitoring Officer and S.151 Officer to discuss issues that may impact on the Council's governance, risk and control framework and agree any action required.

### **INTERNAL AUDIT PLAN AND RESOURCES**

At least annually, the Head of Devon Audit Partnership will submit to the Audit Committee a risk-based internal audit plan for review and approval. The Head of the Devon Audit Partnership will:

- develop, in consultation with Service Directors, an annual audit plan based on an understanding of the significant risks to which the organisation is exposed;
- submit the plan to the Audit Committee for review and agreement;
- implement the agreed audit plan;
- maintain a professional audit staff with sufficient knowledge, skills and experience to carry out the plan and carry out continuous review of the development and training needs;
- maintain a programme of quality assurance and a culture of continuous improvement;

The internal audit plan will include timings as well as budget and resource requirements for the next fiscal year. The Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

Internal Audit resources must be appropriately targeted by assessing the risk, materiality and dependency of the Council's systems and processes. Any significant deviation from the approved Internal Audit plan will be communicated through the periodic activity reporting process.

It is a requirement of the Council's Anti-Fraud and Corruption Strategy that the Head of Devon Audit Partnership be notified of all suspected or detected fraud, corruption or impropriety. All reported irregularities will be investigated in line with established strategies and policies. The audit plan will also include sufficient resource to carry out proactive anti-fraud work.

Internal Audit activities will be conducted in accordance with Council strategic objectives and established policies and procedures.

Monitoring of Internal Audit's processes is carried out on a continuous basis by Internal Audit management, and the Council's members and management may rely on the professional expertise of the Head of the Devon Audit Partnership to provide assurance. From time to time, independent review is carried out: for example, through peer reviews; ensuring compliance with the PSIAS is an essential approach to such a review.

## REPORTING

The primary purpose of Internal Audit reporting is to communicate to management within the organisation information that provides an independent and objective opinion on governance, the control environment and risk exposure and to prompt management to implement agreed actions.

Internal Audit should have direct access and freedom to report in their own name and without fear or favour to, all officers and members, particularly to those charged with governance (the Audit Committee).

A written report will be prepared for every internal audit project and issued to the appropriate manager accountable for the activities under review. Reports will include an 'opinion' on the risk and adequacy of controls in the area that has been audited, which, together, will form the basis of the annual audit opinion on the overall control environment.

The aim of every Internal Audit report should be:

- to give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment; and
- to recommend and agree actions for change leading to improvement in governance, risk management, the control environment and performance.

The Manager will be asked to respond to the report in writing, within 30 days, although this period can be extended by agreement. The written response must show what actions have been taken or are planned in relation to each risk or control weakness identified. If action is not to be taken this must also be stated. The Head of Devon Audit Partnership is responsible for assessing whether the manager's response is adequate.

Where deemed necessary, the Internal Audit report will be subject to a follow-up, normally within six months of its issue, in order to ascertain whether the action stated by management in their response to the report has been implemented.

The Head of the Devon Audit Partnership will

- submit periodic reports to the Audit Committee summarising key findings of reviews and the results of follow-ups undertaken;
- submit on an annual basis an Annual Internal Audit Report to the Audit Committee, incorporating an opinion on the Council's control environment, which will also inform the Annual Governance Statement.

## RELATIONSHIP WITH THE AUDIT COMMITTEE

The Council's Audit Committee will act as the Board as defined in the Public Sector Internal Audit Standards (PSIAS),

The Specific Functions of the Audit Committee are set out in the Council's Constitution (Part 3 Responsibility for Functions).

The Head of Devon Audit Partnership will assist the Committee in being effective and in meeting its obligations. To facilitate this, the Head of Devon Audit Partnership will:

- attend meetings, and contribute to the agenda;
- ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives (e.g. the Audit Strategy, annual work programmes, progress reports);

- report the outcomes of internal audit work, in sufficient detail to allow the committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address;
- establish if anything arising from the work of the committee requires consideration of changes to the audit plan, and vice versa;
- present an annual report on the effectiveness of the system of internal audit; and
- present an annual internal audit report including an overall opinion on the governance, risk and control framework.

### **QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

The PSIAS states that a quality assurance and improvement programme must be developed; the programme should be informed by both internal and external assessments.

An external assessment must be conducted at least once in five years by a suitably qualified, independent assessor. Our previous external assessment of Devon Audit Partnership was completed in October 2012 and we plan a further assessment in November 2016.

The results will be reported to the Audit Committee in the Head of Devon Audit Partnership's annual report, as well as progress against any improvement plan.

### **CHARTER – NON CONFORMANCE AND REVIEW**

Any instances of non conformance with the Internal Audit Definition, Code of Conduct or the Standards must be reported to the Audit Committee, and in significant cases consideration given to inclusion in the Annual Governance Statement.

The Head of Devon Audit Partnership will advise the Audit Committee on behalf of the Council on the content of the Charter and the need for any subsequent amendment. The Charter should be approved and regularly reviewed by the Audit Committee.

**Devon Audit Partnership**

**March 2016**



**Auditing for achievement**

## PLYMOUTH CITY COUNCIL

### INTERNAL AUDIT STRATEGY (March 2016)

#### I INTRODUCTION

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2015, which state:

5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance.

In addition, the Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In The Council, the County Treasurer is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an adequate and effective internal audit service.

The PSIAS refers to the role of Chief Internal Auditor, and requires this officer to ensure and deliver a number of key elements to support the internal audit arrangements. For The Council, the role of Chief Internal Auditor is provided by the Head of Devon Audit Partnership.

The PSIAS require the Head of Devon Audit Partnership to produce an Audit Strategy, which:

- is a high-level statement of how the internal audit service will be delivered and developed in accordance with the Charter and how it links to the organisational objectives and priorities;
- will communicate the contribution that Internal Audit makes to the organisation and should include:
  - internal audit objectives and outcomes;
  - how the Head of Devon Audit Partnership will form and evidence his opinion on the governance, risk and control framework to support the Annual Governance Statement;
  - how Internal Audit's work will identify and address significant local and national issues and risks;
  - how the service will be provided, and
  - the resources and skills required to deliver the Strategy.
- should be approved, but not directed, by the Audit Committee.

The Strategy should be kept up to date with the organisation and its changing priorities.

## **2 INTERNAL AUDIT OBJECTIVES AND OUTCOMES**

The primary objective of Internal Audit is to provide an independent and objective opinion to the Council on the governance, risk and control framework by evaluating its effectiveness in achieving the organisation's objectives through examining, evaluating and reporting on their adequacy as a contribution to the proper, economic, efficient use of resources.

To achieve this primary objective, the Head of Devon Audit Partnership aims to fulfil the statutory responsibilities for Internal Audit by:

- identifying all of the systems, both financial and non-financial, that form the Council's control environment and governance framework, and contribute to it meeting its obligations and objectives – the 'Audit Universe';
- creating an audit plan providing audit coverage on the higher risk areas in the Audit Universe;
- undertaking individual audit reviews, to the standards set by the PSIAS, to independently evaluate the effectiveness of internal control;
- providing managers with an opinion on, and recommendations to improve, the effectiveness of risk management, control and governance processes;
- providing managers with advice and consultancy on risk management, control and governance processes;
- liaising with the Council's external auditors to ensure efficient use of scarce audit resources through the avoidance of duplication wherever possible; and
- providing the Council, through the Audit Committee, with an opinion on governance, risk and control framework as a contribution to the Annual Governance Statement.

## **3 OPINION ON THE GOVERNANCE, RISK AND CONTROL FRAMEWORK**

As stated above, one of the key objectives of Internal Audit is to communicate to management an independent and objective opinion on the governance, risk and control framework, and to prompt management to implement agreed actions.

Significant issues and risks are to be brought to the attention of the S.151 Officer as and when they arise. Regular formal meetings should also be held to discuss issues arising and other matters.

The Head of Devon Audit Partnership will report progress against the annual audit plan and any emerging issues and risks to the Audit Committee.

The Head of Devon Audit Partnership will also provide a written annual report to the Audit Committee, timed to support their recommendation to approve the Annual Governance Statement, to the Council.

The Head of Devon Audit Partnership's annual report to the Audit Committee will:

- (a) include an opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework;
- (b) disclose any qualifications to that opinion, together with the reasons for the qualification;
- (c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance streams;
- (d) draw attention to any issues the Head of Devon Audit Partnership judges particularly relevant to the preparation of the Annual Governance Statement;
- (e) compare the audit work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets; and

- (f) comment on compliance with the Public Sector Internal Audit Standards and communicate the results of the internal audit quality assurance programme.

## **4 PLANNING, INCLUDING LOCAL AND NATIONAL ISSUES AND RISKS**

The audit planning process includes the creation of and ongoing revision of an “audit universe”. This seeks to identify all risks, systems and processes that may be subject to an internal audit review.

The audit universe will include a risk assessment scoring methodology that takes account of a number of factors including: the Council’s own risk score; value of financial transactions; level of change, impact on the public; political sensitivity; when last audited; and the impact of an audit. This will inform the basis of the resources allocated to each planned audit area.

The results from the audit universe will be used in creating an annual audit plan; such a plan will take account of emerging risks at both local and national level.

### *Assignment planning*

Further planning and risk assessment is required at the commencement of each individual audit assignment to establish the scope of the audit and the level of testing required.

## **5 PROVISION OF INTERNAL AUDIT**

The Internal Audit for The Council is provided by Devon Audit Partnership

The Head of Devon Audit Partnership has established policies and procedures in an Audit Manual to guide staff in performing their duties and complying with the latest available PSIAS guidance. The manual is reviewed and updated to reflect changes in working practices and standards.

### **Internal Audit Performance Management and Quality Assurance**

The PSIAS state that the Head of Devon Audit Partnership should have in place an internal performance management and quality assurance framework; this framework must include:

- a comprehensive set of *targets to measure performance*. These should be regularly monitored and the progress against these targets reported appropriately;
- seeking *user feedback* for each individual audit and periodically for the whole service;
- a periodic review of the service against the Strategy and the achievement of its aims and objectives. The results of this should inform the future Strategy and be reported to the Audit Committee;
- internal quality reviews to be undertaken periodically to ensure compliance with the PSIAS and the Audit Manual (self-assessment); and
- an action plan to implement improvements.

## Performance Measures and targets

The Head of Devon Audit Partnership will closely monitor the performance of the team to ensure agreed targets are achieved. A series of performance indicators have been developed for this purpose (please see over).

### Plymouth City Council - Internal Audit Performance Monitoring Targets 2016/17.

Performance Indicator	Full year target 2016/17
Percentage of Audit Plan completed	90%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%
Draft reports produced with target number of days (currently 15 days)	90%
Final reports produced within target number of days (currently 10 days)	90%

There are a number of other indicators that are measured as part of the audit process that will be captured and reported to senior management.

Task	Performance measure
Agreement of Annual audit plan	Agreed by Chief Executive, CMT and Audit Committee prior to start of financial year
Agreement of assignment brief	Assignment briefs are agreed with and provided to auditee at least two weeks before planned commencement date.
Undertake audit fieldwork	Fieldwork commenced at agreed time
Verbal debrief	Confirm this took place as expected; was a useful summary of the key issues; reflects the findings in the draft report.
Draft report	Promptly issued within 15 days of finishing our fieldwork. Report is "accurate" and recommendations are both workable and useful.
Draft report meeting (if required)	Such a meeting was useful in understanding the audit issues
Annual internal audit report	Prepared promptly and ready for senior management consideration by end of May. Report accurately reflects the key issues identified during the year.
Presentation of internal audit report to management and audit committee.	Presentation was clear and concise. Presented was knowledgeable in subject area and able to answer questions posed by management / members.
Contact with the audit team outside of assignment work.	You were successfully able to contact the person you needed, or our staff directed you correctly to the appropriate person. Emails, letters, telephone calls are dealt with promptly and effectively.



Once collated the indicators will be reported to the S.151 Officer on a regular basis, and will be summarised in an annual report. Performance indicator information will also be presented to the Audit Committee for information and consideration.

The Head of Devon Audit Partnership is expected to ensure that the performance and the effectiveness of the service improves over time, in terms of both the achievement of targets and the quality of the service provided to the user.

### *Customer (user) feedback*

The PSIAS and the Internal Audit Manual state that internal audit performance, quality and effectiveness should be assessed at two levels:

- for each individual audit; and
- for the Internal Audit service as a whole.

Customer feedback is also used to define and refine the audit approach. Devon Audit Partnership will seek feedback from:-

- auditees;
- senior management; and
- executive management.

The results from our feedback will be reported to Senior Management and the Audit Committee in the half year and annual reports.

### *Internal quality reviews*

Devon Audit Partnership management have completed a self-assessment checklist against the PSIAS and have identified that there are no omissions in our practices. We consider that we fully meet over 92% of the elements; partially meet 5.5%; and are not required to or do not meet 2% (seven) of the elements. The self-assessment will be updated annually, and, if management identify areas where we could further strengthen our approaches, these will be added to the Quality Action Improvement Plan.

In October 2012, Helen Maneuf, Head of Assurance for Hertfordshire Shared Internal Audit Service, completed an external validation of the Partnership. Helen concluded that;

*DAP is considered to be operating in conformance with the IIA standards.*

*'The service has established a strong reputation with its clients and recent structural changes are proving beneficial. There are opportunities to further develop the business to ensure DAP is strongly placed to progress and to deliver its vision.'*

The PSIAS require that an external assessment is carried out at least once every 5 years. We plan to have a further external assessment completed in November 2016.

## **6 RESOURCES AND SKILLS**

### *Resources*

The PSIAS and the Audit Manual states that:

- Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its responsibilities and objectives, or have access to the appropriate resources;
- The Internal Audit service shall be managed by an appropriately qualified professional with wide experience of internal audit and of its management; and
- The Chief Internal Auditor (Head of Devon Audit Partnership) should be of the calibre reflecting the responsibilities arising from the need to liaise with members, senior management and other professionals, and be suitably experienced.

Devon Audit Partnership currently has c.36 staff who operate from any one of our three main locations (Plymouth, Torquay and Exeter). The Partnership employs a number of specialists in areas such as Computer Audit and Contracts Audit as well as a mix of experienced, professionally qualified and non-qualified staff.

The Partnership draws on a range of skilled staff to meet the audit needs. Our current staff (as at January 2016) includes:-

- 3 x CCAB qualified
- 6 x qualified IIA (including QICA – computer audit)
- 4 x studying for IIA
- 11 x AAT qualified
- 4 x ILM (Institute of Leadership & Management) level 5 or above

Devon Audit Partnership uses MorganKai Insight (MKi) as an audit management system. This system allows Partnership management to effectively plan, deliver and report audit work in a consistent and efficient manner. The system provides a secure working platform and ensures confidentiality of data. The system promotes mobile working, allowing the team to work effectively at client locations or at remote locations should the need arise.

### *Staff Development and Training*

Devon Audit Partnership management assess the skills of staff to ensure the right people are available to undertake the work required.

Staff keep up to date with developments within internal audit by attending seminars, taking part in webinars and conferences, attending training events and keeping up to date on topics via websites and professional bodies. Learning from these events helps management to ensure they know what skills will be required of our team in the coming years, and to plan accordingly.

Devon Audit Partnership follows formal appraisal processes that identify how employees are developing and create training and development plans to address needs.

**Devon Audit Partnership**

**March 2016**

**Auditing for achievement**

### Audit Committee Work Plan 2015/16

		2015							2016					
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
Internal Audit Annual Report (including six month Internal Audit Progress Report - Dec)	Cllrs Lowry and Peter Smith (Rob Hutchings/ Brenda Davis)	25						3						
Statement of Accounts 2014/15	Cllrs Lowry and Peter Smith	25			17									
Operational Risk & Opportunity Register- Update Report	Cllrs Lowry and Peter Smith (Mike Hocking)	25						3						
Risk & Opportunity Management Annual Report	Cllrs Lowry and Peter Smith (Mike Hocking)	25												
Annual Governance Statement	Cllrs Lowry and Peter Smith (Mike Hocking)	25												
Annual Report on Treasury Management Activities for 2015/16 (and mid-year report)	David Northey	25			17			3	*					

### Audit Committee Work Plan 2015/16

		2015							2016					
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
Strategic Risk and Opportunity Register Monitoring Report	Cllrs Lowry and Peter Smith (Mike Hocking)				17						24			
Internal Audit Plan 2016/17	Cllrs Lowry and Peter Smith										24			
Internal Audit – Progress Report	Brenda Davis/ Dominic Measures/ Robert Hutchins				17									
Internal Audit – Follow Up Work	Brenda Davis/ Dominic Measures/ Robert Hutchins				17									
Audit Plan 2014/2015 – progress report	External Auditor Grant Thornton				17									
Audit Committee Update	External Auditor BDO							3			24			

### Audit Committee Work Plan 2015/16

		2015							2016					
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
Annual Report to Those Charged with Governance (ISA260 Report) 2014/2015 including Value for Money (VFM)	External Auditor Grant Thornton				17									
Annual Audit Letter 2014/2015	External Auditor Grant Thornton							3						
Certification Plan	External Auditor Grant Thornton				-									
Certification Work Report 2014/2015	External Auditor Grant Thornton							3						
Audit Plan 2015/2016	External Auditor Grant Thornton										24			
Audit Fee Letter 2016/2017	External Auditor BDO													
Review of rolling workplan	Lead Officer/DSO	25			17			3			24			

### Audit Committee Work Plan 2015/16

		2015							2016					
Item	Cabinet Member / Lead Officer	J	J	A	S	O	N	D	J	F	M	A	M	J
Information Commissioners Audit	Mike Hocking/John Finch				-						24			
Overview of Civil Protection											24			
NEW Devon CCG Audit Committee (March 2016)											24			
Treasury Management Practices, Principles and Schedules 2016/17											24			
Treasury Management Strategy											24			
Internal Audit Charter and Strategy 2016/17											24			